

AR57

1996

ipasco inc.

Annual Report

IPSCO Inc. had its beginnings in 1956 as a pipe manufacturer, converting purchased coil. The company began production of its own steel in 1960 and has quickly evolved into Canada's major western steel company. Today, the steelmaking capacity of the company is over one million tons per year. In 1997 the company will begin operating its Montpelier Steelworks which will more than double the steelmaking capacity of the company.

The company is publicly traded with the majority of shares widely held.

IPSCO employs directly and through its subsidiary companies, over 1,500 people.

IPSCO's long term goals are to:

- be the predominant supplier of carbon hot coil and heavy plate in western Canada and the neighbouring states;
- become a major player in certain special steel markets, especially tubular products and alloy steels, in North America;
- earn an average return on shareholders' equity which is among the leaders in long-term profitability in the carbon steel industry;
- be a reliable employer with excellent working conditions; and
- be a good corporate citizen in the communities in which it operates.

The Front Cover

IPSCO Steel Inc.'s Montpelier Steelworks will utilize state-of-the-art technology to produce up to 1.25 million tons of steel annually. The facility will specialize in plate products but will have the capacity to produce coiled material as well.

The Annual Meeting

The shareholders' annual meeting will be held on 18 April 1997 at the Turvey Centre, Regina.

The Year at a Glance

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Year ended 31 December	1996	1995	% Change
Production of Raw Steel (Tons) •	1,014.5	980.3 ⁽¹⁾	3
Shipments (Tons) •	1,160.1	1,011.1	15
Man-hours per Ton Shipped	2.41	2.80	(14)
Sales*	\$804.9	\$706.3	14
Net Income*	\$83.3	\$81.7	2
Percent Earned on Shareholders' Equity	11%	12%	(8)
Per Common Share			
Net Income	\$3.07	\$3.01	2
Dividends	\$0.48	\$0.48	-
Working Capital at Year-End*	\$352.1	\$225.4	56
Current Liabilities Coverage by			
Current Assets (Number of Times)	3.0	2.5	20
Long-Term Debt at Year-End*	\$385.6	\$286.3	35
Percentage of Long-Term Debt			
to Total Capitalization	33%	28%	18
Capital Asset Expenditures for the Year*	\$126.6	\$219.8	(42)
Number of Common Shares			
Outstanding at Year-End*	27.1	27.1	-
Average Employment	1,508	1,438	5

• in thousands

* in millions

(1) Excludes 41.1 tons of raw steel production produced in the Calgary rebar operation which has been closed.



IPSCO's
Fortieth Anniversary
culminated with record
profits for a third
consecutive year.

H i g h l i g h t s**3**

Record profits for the third consecutive year were a fitting culmination to IPSCO's Fortieth Anniversary year. After-tax income of \$83.3 million was two percent higher than 1995, with return on shareholders' equity slipping to 11 from 12 percent.

Sales increased 20 percent to 1,160,100 tons* and good cost control was exhibited from operations. Sales strength was particularly exhibited in the United States, from a geographic point of view, and in tubular products for the energy industry, from a product group perspective.

Twenty-two percent of IPSCO's sales were shipped to United States customers from its American plants and a further eight percent to the U.S. came from its Canadian operations, making U.S. destinations responsible for fully 30 percent of IPSCO shipments. The remaining 70 percent constituted Canadian sales, primarily from IPSCO's Canadian operations. With 43 percent of IPSCO's sales in energy related tubulars, 34 percent in fabricated products, and 23 percent in steel mill products the company maintained a substantially balanced product mix, despite the strong demand from the energy sector.

Because sales opportunities exceeded IPSCO's steelmaking capacity purchased hot rolled coil and slab were used to achieve the 20 percent increase in tonnage sales. This impacted positively on profitability in two ways. First, it meant high production at the steelmaking stage which fosters good efficiencies. Second, it imposed an internal discipline on price levels as only orders for manufactured products which could be made profitably from purchased steel were accepted.

Selling prices play an important role in the relative profitability of a steel company. The combination of the internal price discipline described above plus a general firming in the market meant an upward trend in average prices realized as the year went on.

« Scrapped cars in the form of crushed bundles are one source of material that forms the 1.1 million tons of steel that IPSCO can recycle annually.

** in this comparison sales of discontinued reinforcing bar are excluded*

An exception was in hot rolled coil and discrete plate where, for certain grades and sizes, intense competition from offshore suppliers severely restrained some prices. This has prompted the initiation of trade suits in both Canada and the United States by other steel companies against plate imports and there are rumours of impending cases involving hot rolled coil.

Buoyant operating levels did not mean IPSCO abandoned its concern for safety. To the contrary the number of lost time accidents dropped to .6 per 100 man years as compared to 1.1 for the company in 1995 and the current industry-wide performance, thought to be 2.3.

Company employees as well as charities and community services benefitted from IPSCO's ongoing profitability. Some \$5.8 million of profit sharing in the form of company shares and cash were paid out to company employees at all levels (this amount does not include management performance bonuses). Charities and community service spending amounted to \$846,000, about one percent of the average pre-tax profit of the company over the previous three years.

IPSCO's major disappointment for the year was the failure of its general contractor, under a turn-key contract, to complete construction of the company's new U.S. mini-mill in 1996. During the year the estimated completion date was revised by the contractor several times and is now foreseen to be the second quarter of 1997. The contract entitles IPSCO to claim damages as a result of delays extending beyond mid-February and as a result IPSCO anticipates that a major capital cost impact should not result. It remains a fact that the new mill, which will produce primarily discrete (as opposed to coiled) plate, has missed out on at least part of a period of historic or near-historic high demand for its products.



IPSCO's senior management gathered at the plate cooling bed at IPSCO's Montpelier steelworks. The cooling bed is the length of half a football field.

From back to front, left to right: David Sutherland, Charles Sanida, Charles Backman, Roger Phillips, Peter MacPhail, Ed Tiefenbach, Bob Rzonca, Mario Dalla-Vicenza, John Tulloch, Joe Russo

Capital spending* on the new mill, with an initial capacity of 1,250,000 tons, was U.S. \$80.1 million for the year, with 91 percent of the total estimate of U.S. \$400 million having been spent by year end. Major expenditures for the mill in 1997 will include capitalized interest and start-up costs, part of the \$400 million estimate.

Other capital spending in the company was \$17.4 million, limited because of contractor delays and the inability to schedule construction time on heavily loaded facilities.

Nevertheless a major upgrade

and expansion of the Camanche, Iowa, pipeworks was on schedule at year end with a planned second quarter completion.

During the year IPSCO increased its long-term debt by \$100 million Canadian, bringing the ratio of long-term debt to total capitalization to 33 percent.

Reflecting IPSCO's continually growing American presence its common shares started trading on 31 December under the symbol "IPS" on the New York Stock Exchange.

** Capital spending is reported on an accrual basis except in the financial section where generally accepted accounting principles require that capital spending be reported on a cash basis for purposes of discussing the statement of changes in cash position.*

Financial

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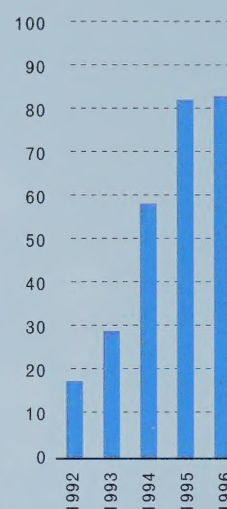
Net earnings in 1996 increased by two percent to a record \$83.3 million on shipments of 1,160,100 tons.

Earnings per share on the 27.1 million shares outstanding in 1996 also increased by two percent to \$3.07 from \$3.01 in 1995. The annualized rate of return on common shareholders' equity was nine percent in the first quarter, nine percent in the second quarter, 12 percent in the third quarter and 14 percent in the fourth quarter. For the year, the return on equity decreased to 11 percent from 12 percent in 1995.

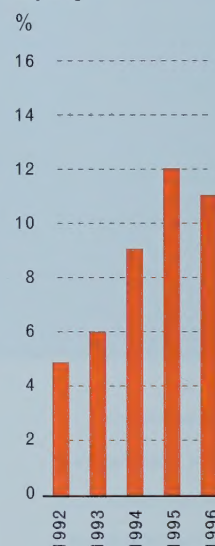
The return on equity, although slightly lower than the previous fiscal year, is noteworthy for two reasons. First, there is a large accumulated investment in the United States mill which, because it is still not yet operating, is not generating any return. Secondly, the money that is to be used to complete the new mill and fund its working capital requirements is being temporarily invested in high quality short-term securities with returns much lower than the return being generated by the operating business.

During 1996 working capital provided by operations was \$95.3 million and non-cash operating working capital was increased by \$41.1 million which resulted in a net of \$54.2 million of cash being generated from operating activities. Higher sales levels plus the building of raw material and supply inventories for the startup of the new steel mill in the United States caused the increase in non-cash operating working capital. On 10 October 1996 IPSCO raised \$100 million in cash by selling that amount of Canadian dollar denominated 10-year unsecured debentures due 1 December 2006 bearing semi-annual interest at an annual rate of 7.8 percent. In addition, \$8.6 million was raised from the sale of an interest in surplus land of Western Steel, \$.1 million was raised from shares issued pursuant to the share option plan, and the cash effect of notionally translating foreign subsidiaries to Canadian dollars was \$.2 million.

Net Income
\$ Millions

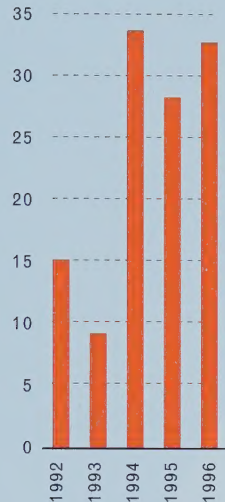


Return on Shareholders' Equity
%



Net income increased to \$83.3 million in 1996 while return on shareholders' equity declined to 11%.

Debt as a Percentage of Total Capitalization
%

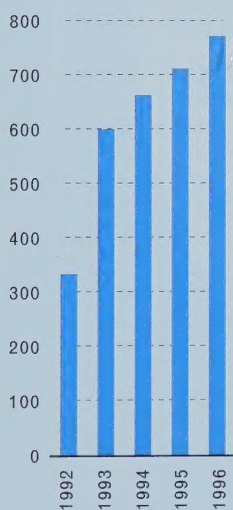


Dividends of \$13.0 million were paid out, \$1.5 million of long-term debt was repaid, \$1.4 million of debt issue expense was incurred, and \$118.2 million was expended on capital assets of which \$60.2 million was funded from maturing long-term securities.

As a result, during 1996 IPSCO's cash position increased by \$89.2 million to \$226.7 million at 31 December.

Long-term securities were reduced by \$60.2 million during the year to \$92.5 million at 31 December. The long-term securities on hand at 31 December are denominated in U.S. dollars and will be used to fund capital expenditures required for the Iowa steel mill.

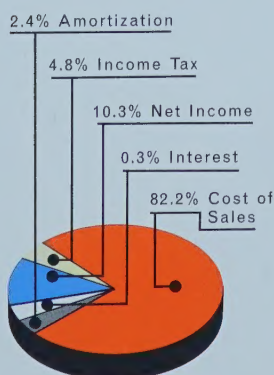
Shareholders' Equity
\$ Millions

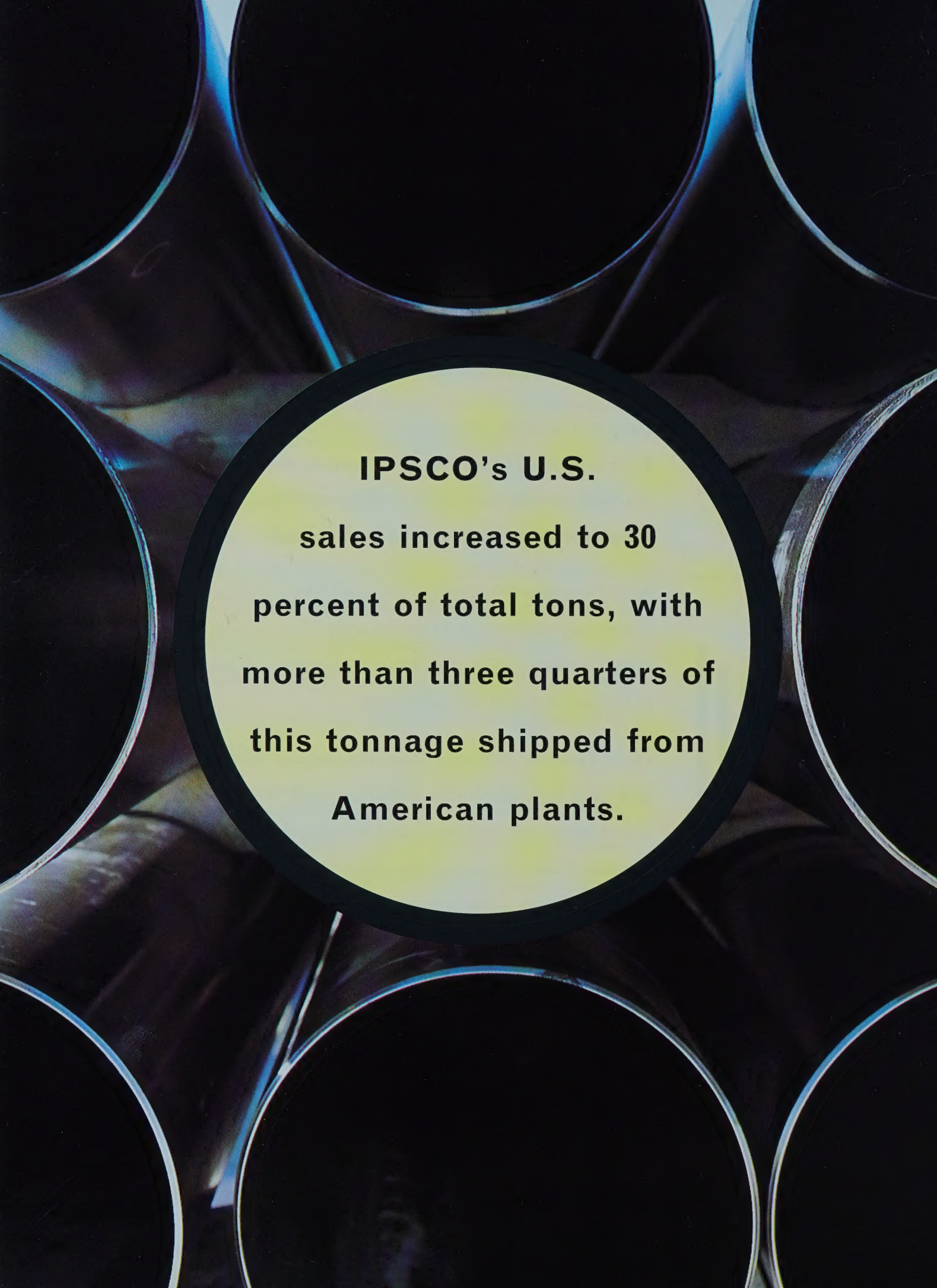


At 31 December 1996 IPSCO's long-term debt as a percentage of total capitalization increased to 33 percent and its ratio of current assets to current liabilities improved to 3.0 to 1 compared to 28 percent and 2.5 to 1 respectively at 31 December 1995.

On 31 December 1996 IPSCO listed its common shares on the New York Stock Exchange (NYSE) under the symbol "IPS". The shares in the United States were previously traded through the National Association Securities Dealers Automated Quotations system (NASDAQ). In Canada, IPSCO's common shares continue to be listed on the Toronto and Alberta exchanges.

Distribution of 1996 Sales Dollars

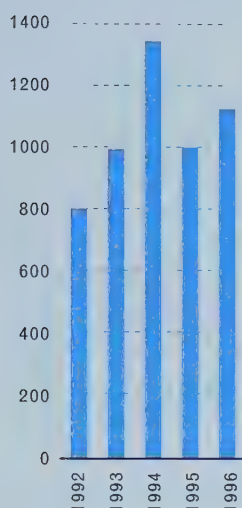


The background of the entire page is a close-up, high-contrast photograph of several large, dark-colored steel coils. The coils are stacked and arranged in a way that creates a repeating pattern of circular and semi-circular shapes. The lighting is dramatic, with bright highlights on the edges of the coils and deep shadows in the centers, giving the image a metallic and industrial feel.

IPSCO's U.S.
sales increased to 30
percent of total tons, with
more than three quarters of
this tonnage shipped from
American plants.

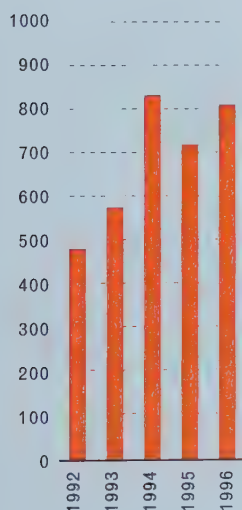
Sales

Shipment Tonnage
Thousands of Tons



Shipment tonnage at 1,160,100 was some 20 percent higher than the previous year (excluding 42,600 tons of reinforcing bar sales in 1995 from a now shutdown operation). Sales volumes reached \$805 million.

Sales Volume
\$ Millions



« Tubular products are produced at six IPSCO locations in diameters ranging from 1 inch to 80 inches, although not all locations produce all sizes.

Sales were 1,160,100 tons, some 20 percent or 192,000 tons over the previous year, if one excludes 42,600 tons of reinforcing bar sales in 1995 from an operation that is now shut down.

Geographically, a strong U.S. economy, impacting particularly positively on steel requirements of mid-west manufacturers, saw IPSCO's U.S. sales increase to 30 percent of total tons, up from 27 percent a year earlier. More than three quarters of this tonnage was shipped from IPSCO's American plants. Canadian sales constituted virtually all of the other 70 percent, as offshore exports were minimal.

From a product category perspective energy related tubulars were up 31 percent in tonnage, and fabricated products including cut-to-length flat-rolled, standard pipe, and hollow structurals, saw a 23 percent increase. Steel mill products, including hot rolled coil and discrete plate, were virtually unchanged.

IPSCO's sales exceeded its raw steel production capability, with purchased hot rolled coil and some cast slabs being used as supplements where procurement costs made it economically feasible. Generally speaking no orders were accepted which could not support the additional cost of purchased steel. This internally imposed price discipline meant that certain geographical or product areas were downplayed in favour of more profitable ones.

In terms of general price patterns the year was almost a mirror image of 1995 which saw early price strength erode quarter by quarter. In contrast, prices started firming early in 1996 and then, except for a few cases, rose to their highest by the year-end. Exceptions to this rule were in commodity grade coil and plate and in some products manufactured from them. Weakening demand in the European Union and the need for hard currency by many eastern European countries saw low priced imports hit those portions of Canada and the United States readily accessible by ocean transport.

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A higher value-added product mix, combined with the discipline of purchasing steel supplies from third parties, meant that IPSCO was less affected than others by price pressures from imports. On a year-to-year comparison the average unit selling price was virtually unchanged but, more importantly, it was up just under six percent in the fourth quarter as compared to the previous final quarter.

Steel Mill Products

Sales of 269,100 tons were almost unchanged from the previous year. Primarily because of better profit opportunities in other lines, coil sales were allowed to drop some nine percent but sales of discrete plate increased about 23 percent. On a full year-to-year comparison, the average unit selling price for this group was improved by less than one percent.

Energy Related Tubulars

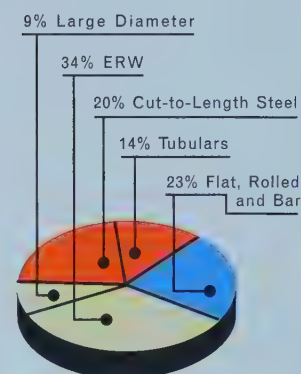
This sector includes sales for both down-hole and transmission applications for oil and gas and amounted to 495,000 tons, up 31 percent from the previous year. Oil country tubular goods (used as well casings and to channel oil and gas to the surface) and small diameter line pipe (used to hook up wells to transmission systems) saw a 21 percent rise, large diameter spiral weld gas transmission pipe doubled, while mid-range line pipe (16 to 24 inches in diameter) grew 17 percent.

Particularly high levels of oil and gas well drilling in Canada, spurred by high energy prices, were the main driving force behind the higher sales of oil country tubulars and small diameter line pipe. In the U.S., where IPSCO's pipe making facilities are relatively distant from drilling areas, the company concentrates on smaller volumes of product requiring special steel grades which fetch better prices.

Large diameter oil and gas transmission line projects were scarce in North America but the major ones were close to IPSCO's large diameter facilities, making it possible to increase sales over the previous year.

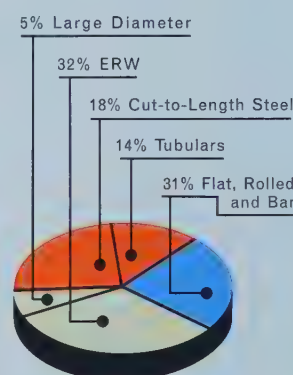
Distribution of Sales by Product

1996



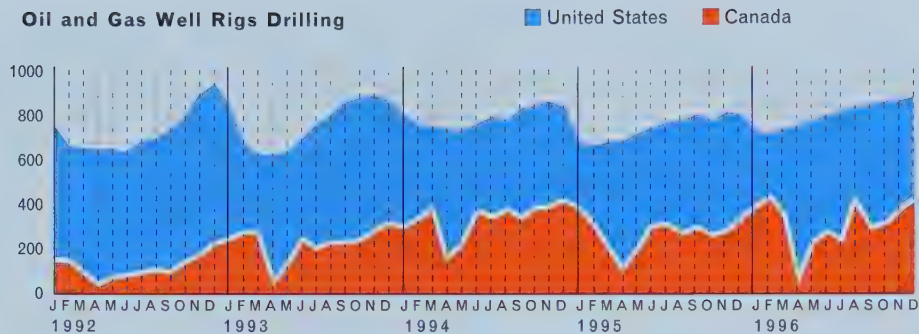
■ Energy Related Tubulars
 ■ Steel Mill Products
 ■ Fabricated Products

1995

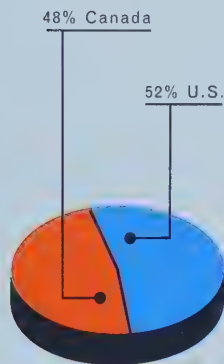


High levels of drilling in Canada were the main driving force behind the higher sales of energy related tubulars.

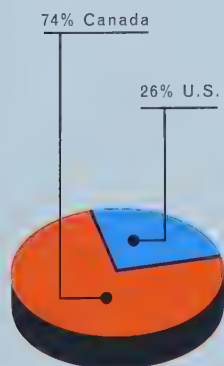
Oil and Gas Well Rigs Drilling



Spending



Sales



IPSCO spends a higher percentage on goods and services in the U.S. than it sells to U.S. customers. This is because, in addition to purchasing to support its U.S. activities, some equipment and supplies used in Canada are imported.

Spending includes raw materials, supplies, capital equipment and payrolls.

The average unit selling price for the group was down almost 5 percent, largely reflecting the impact of some large projects booked in late 1995, at a time of price weakness. Comparing fourth quarter to fourth quarter, prices rose on average just over seven percent.

Fabricated Products

Tonnage sales amounted to 396,000, a rise of 23 percent from the 322,600 tons sold in 1995. This group includes all of IPSCO's sales of products undergoing manufacture subsequent to the steel mill, except for tubular goods destined for the oil and gas industry. The strong sales level reflects both high demand from steel product users such as machinery and equipment manufacturers and in particular a burgeoning farm implements manufacturing sector, and the wider product ranges available from IPSCO's recently modernized coil processing facilities in St. Paul, Minnesota, and Surrey, B.C. Cut-to-length products were up 29 percent, hollow structurals 24 percent, and standard pipe 11 percent. Increased standard pipe tonnage came largely in the United States where IPSCO is consciously emphasizing this product at its Camanche, Iowa, pipe mill.

Average unit selling prices for this group were indirectly under pressure because of the availability to IPSCO's competitors of low priced imported feed stock, as well as some overcapacity in the industry. In consequence, prices were off just under four percent on a year-over-year basis, but were up almost four percent on a final quarter comparison basis.

Operations**12**

The operating level of a particular IPSCO unit ultimately depends on economic factors such as overall demand and potential profitability.

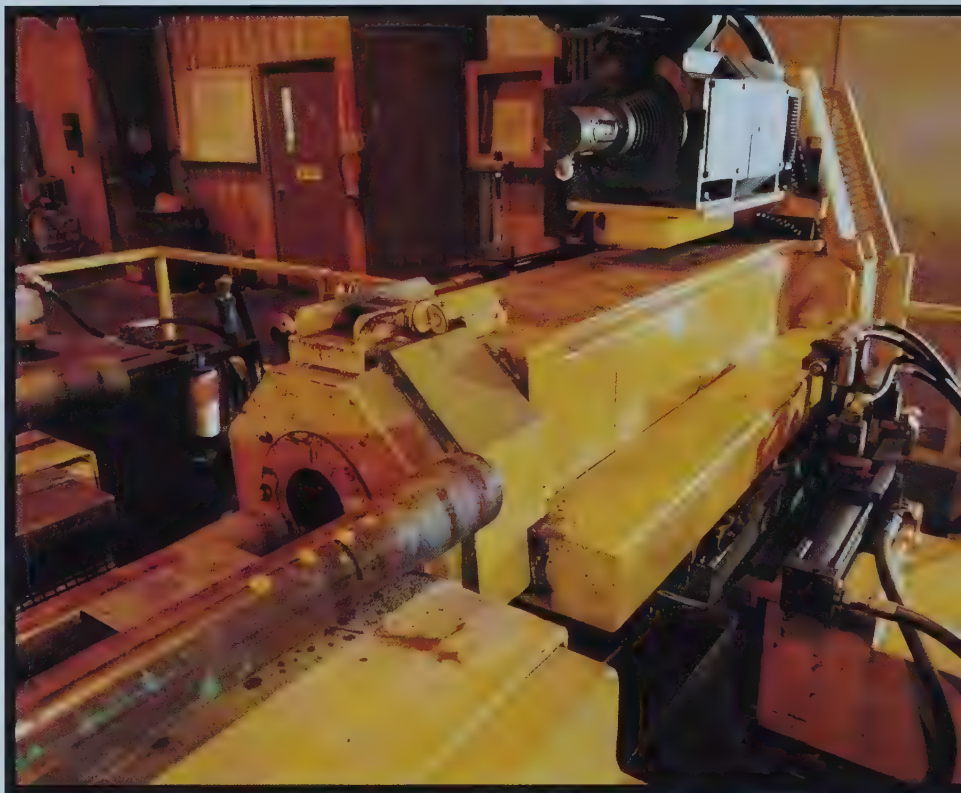
In some years, when demand is low, IPSCO manufactures all the steel it needs to serve both third party customers and its captive tubular products and coil processing facilities, except for size ranges and grades it does not produce. At other times the demand can exceed internal steelmaking capability and in these circumstances steel production is

supplemented by purchases from other steel producers. But because of the high freight costs inherent in the location of some IPSCO plants the quantity of purchased steel which can generate a profit can be a limiting factor.

In 1996 conditions were such that IPSCO could run its own steelmaking at virtually full capacity and also purchase some 295,000 tons of steel from third parties, up from 81,600 tons a year earlier.

Higher equipment utilization means higher efficiencies and this was the general rule throughout the IPSCO group.

The number of hours worked per ton of product shipped fell to a record low 2.4 from 2.8 a year earlier. While some of the year-over-year improvement reflects the reduced manpower requirement that is inherent in the use of a larger quantity of purchased steel it nevertheless was well below the 2.7 man hours per ton shipped in 1994 when substantial quantities of purchased steel were also consumed. The number of man hours per ton to produce a ton of coil being the same in both years, the balance of the year-over-year improvement in hours worked per ton shipped in 1996 was due to efficiencies in IPSCO's coil processing and fabricating facilities.



A new stacker installed at »
the Surrey coil processing
facility resulted in
operational efficiencies.

Raw Materials

Iron and steel scrap, IPSCO's major raw material, varies in price with supply and demand. Typically not only domestic but offshore factors come into play as Canada and the U.S. combined are net scrap exporters. Average scrap prices declined somewhat despite the coming on stream of new electric furnace steel operations which are heavy scrap consumers. However demand from offshore markets and an abundance of scrap substitutes at good prices, particularly pig iron, acted as price dampeners on scrap. The unit cost of prepared scrap charged to production in IPSCO's Regina steelworks fell four percent.

Carbon electrodes, which channel the electricity to create the arc in electric steelmaking furnaces, are eventually consumed in the process. With increased demand due to the high level of mini-mill activity in North America the price of electrodes increased by eight percent on a year-over-year basis.

The average cost of electricity consumed at all company locations was virtually unchanged.

Steelmaking

Raw steel production at the Regina steelworks amounted to 1,014,500 tons for the year, 3 1/2 percent ahead of 1995, but two percent below the record year of 1994. Capacity utilization at 93 percent exceeded the previous year's figure of 88 percent and was constrained, not by market conditions, but by, among other causes, a higher degree of interruptions in the supply of electricity to the company's two electric steelmaking furnaces (under a long-term contract IPSCO's electricity supply in Regina is subject to up to 150 hours of interruption a year, in return for a lower price). These interruptions, termed "peak shaving", are more likely to occur in very cold weather and re-starting production under such conditions can eat up significant potential production time after power has been restored.

The cost per ton of mill edge hot rolled coil fell one percent ("mill edge" coil is steel produced directly off the rolling mill in coiled form without further processing). The cost of raw materials going into a ton of such coil was virtually unchanged as scrap costs dropped only to be offset by a comparable rise in alloys and fluxes.

« A new beveller installed at the Calgary Oil Country Tubular Goods facility will assist in dealing with the high demand for energy related products.





Therefore internal operating efficiencies were the major contributor to the overall cost improvement. The number of man hours required to produce a ton of mill edge coil remained at 0.85, unchanged from a year earlier.

Tubular Production

Increased demand across the gamut of tubular products offered for sale by IPSCO translated into higher capacity utilization for the company's Canadian pipe production facilities, which operated at an average level of 41 percent compared to 33 percent for the previous year. Nevertheless this was lower than experienced in the early 1990s when there was a higher demand for large diameter pipe.

Utilization of IPSCO's large diameter spiral mills rose to 32 percent from 23 percent in 1995 while that of the electric resistant weld mills rose to 47 percent from 41 percent.

IPSCO's American pipe mills saw a slight increase in utilization, reaching 33 percent compared to 31 percent for the previous year.

The cost of pipe "conversion", the difference between the cost of a ton of finished pipe and a ton of steel strip used in its manufacture continued to improve, with particularly significant gains at the U.S. locations.

Coil Processing

Nineteen ninety-six saw the first full year of operation following modernizations of IPSCO coil processing facilities at St. Paul, Minnesota and Surrey, British Columbia. The enhanced capability of these operations resulted in record production levels because of both improved throughput capability and an expanded product range. This experience has prompted the preparation of a plan to replace the Regina cut-to-length operation with a similar stand-alone unit to serve the Canadian prairie provinces.

Research and New Product Development**15**

IPSCO, as a relatively small steel company, takes full advantage of its ability to do in-plant experimental work in conjunction with production runs, supplementing laboratory scale efforts in order to get a “better bang” for such spending. To further stretch the research dollar IPSCO participates in cooperative industry-sponsored programs and also directly funds some IPSCO-specific research at universities.

In 1996 three major product development projects reached initial commercial application stages.

IPSCO 80 is an 80,000 pounds per square inch yield strength proprietary grade product available in coil and cut-to-length forms. As such it is 60 percent stronger than run of the mill steel traditionally used in component manufacture. The product was developed as a spinoff from work originally performed by IPSCO to develop high strength steels originally used in railroad car structural applications and then in line pipe applications. The new product can replace higher cost material produced through furnace treatments or result in weight savings when used in place of lower strength steels. In addition to its high strength, IPSCO 80 is weldable and possesses excellent formability.

IPSCO's proprietary QB2 coupling, used to join pieces of oil well casing for service in aggressive environments, underwent a change in its method of manufacture resulting in enhanced sealability, an important quality feature.

Experimental work, aimed at the development of casing products with superior resistance to hydrogen-induced cracking, has resulted in the use of a combination of sophisticated casting processes coupled with alloy modifications. The new product withstands the most aggressive test environments. A commercial trial is underway.

Both the improved coupling and new casing product are particularly suited for use in horizontal wells, an increasingly popular form of oil extraction. In developing these products IPSCO has relied heavily on the expertise of the Canadian Frontier Engineering Research Association (CFER) and both products are being evaluated in CFER's test facilities which simulate the thermal cycles of horizontal wells.

The process of uncoiling and cold levelling coil prior to cutting it to length, while understood in a macro sense, is often a mystery at the production level. Residual stresses can result in distortion when the material is recut by a fabricator. In 1996, as the operator of three coil processing facilities, IPSCO studied the complex levelling process in detail and determined the optimum set-up conditions for its equipment in St. Paul, Surrey, and Regina, in order to minimize the phenomenon.

In the field of process improvement four milestones were passed.

While a customer is interested in the end properties of a tubular product it purchases, a pipe producer must take into account that the steel properties can be altered through the forming operation involved in pipemaking. Thus to produce a given set of properties different ones may be needed in the starting steel. Each diameter and thickness of pipe goes through differing amounts of work as the pipe is formed, rendering the solution a complex one. In 1996 experimental work resulted in the development of a predictive model which ensures that IPSCO optimizes its pipe product yields when using its own steel, and assists in specifying steel ordered from third parties.

By using water to cool strip after it leaves a hot mill the strength of the steel is improved. Rolling trials commissioned by IPSCO at the Material Technology Laboratory of the federal Department of Natural Resources in Ottawa have established the relationship between the amount of strength enhancement in hot rolled strip and given accelerated cooling rates. Parallel in-house work by IPSCO has resulted in the development, as a prototype, of an improved release system for the cooling water. Installation of the new system will permit substantial savings in alloy additions (now needed for strength purposes) and enhance the flatness of the rolled product.

In preparation for the startup of the caster at the new U.S. mill IPSCO has collaborated with the University of Iowa to develop models which will be used to fine tune the equipment and assist in the implementation of liquid core reduction technology, in turn designed to improve the internal structure of the resultant steel products.



**IPSCO 80 steel allows
Doecker Industries of
Anaheim, Saskatchewan
to fabricate truck trailers
with superior strength at
lower production costs.**

As a member of the American Iron and Steel Institute (AISI) and its Committee on Advanced Process Control, IPSCO is actively participating in a program on microstructure and property prediction being led by the University of British Columbia. Another AISI sponsored piece of work to develop methods of in-line property assessment is being conducted by the National Research Council in Boucherville, Quebec.

IPSCO, traditionally a producer of carbon steel grades did preliminary work on a potential new product, stainless steel. A successful trial melting and rolling of stainless coils was completed in 1996. Although IPSCO does not yet have the necessary equipment to produce this product in commercial quantities for the marketplace, the knowledge gained from this trial will be useful should IPSCO choose to enter this market in the future.

« Laboratory tests are used to evaluate the resistance of line pipe to sulphide stress cracking.



Trade Matters**18**

Imports typically account for 20 to 30 percent of the steel used in each of Canada and the United States. Because the North American steel market is a mature one, total consumption increases slowly, more or less in line with the economy. Thus variations in import levels often drown out or dampen economic effects in a strengthening market or reinforce the negatives felt by domestic producers in economic downturns. This phenomenon is not insignificant for several reasons.

First, major non-North American steel producing regions tend to maintain productive capacity substantially greater than domestic needs, increasing exports to North America whenever their domestic demand falls off.

Secondly, to make matters worse, hard currency starved regions, particularly the former communist states, are dependent on steel exports for a substantial portion of their foreign exchange needs.

To top things off, most steel imported to this continent is handled by trading companies whose profits come from volume related commissions which makes pricing a secondary issue.

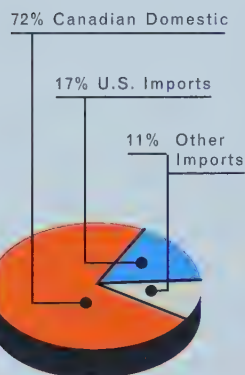
Because of its density, steel is inherently costly to ship and therefore the prices fetched by such exports to North America, net of freight, can be quite low, well below the producer's home market returns and often below full cost. Either of these situations constitutes dumping under international trade law. This allows the receiving country, after establishing injury in a legal proceeding, to impose special so-called anti-dumping duties on such imports from the offending nation in order to render the practice so uneconomic to the seller that it desists.

Given the potential threat it is no small wonder that Canadian and American companies are ever watchful of steel import levels. The year just ended was no exception. While for a third straight year domestic demand in the U.S. and Canada remained strong enough to permit near full production by domestic producers, profit levels for the bulk of the industry were far from

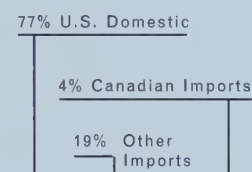
the average of other industrial sectors and certainly not typical of “peak of the cycle” returns. Some observers believe this is at least in part due to price weakness caused by the continuing prominent role of imports.

Steel usage in the United States is measured as “apparent supply” as it includes both actual usage and inventory accumulations by customers. In 1996 apparent supply fell just short of 125 million tons, up almost nine percent from 1995, the highest since the early 1970’s. The demand underlying this increase in apparent supply has been fuelled by increased domestic shipments (which were higher by about three percent despite a spate of equipment breakdowns) and a resurgence of imports which amounted to 29 million tons, 19 percent higher than in 1995. More

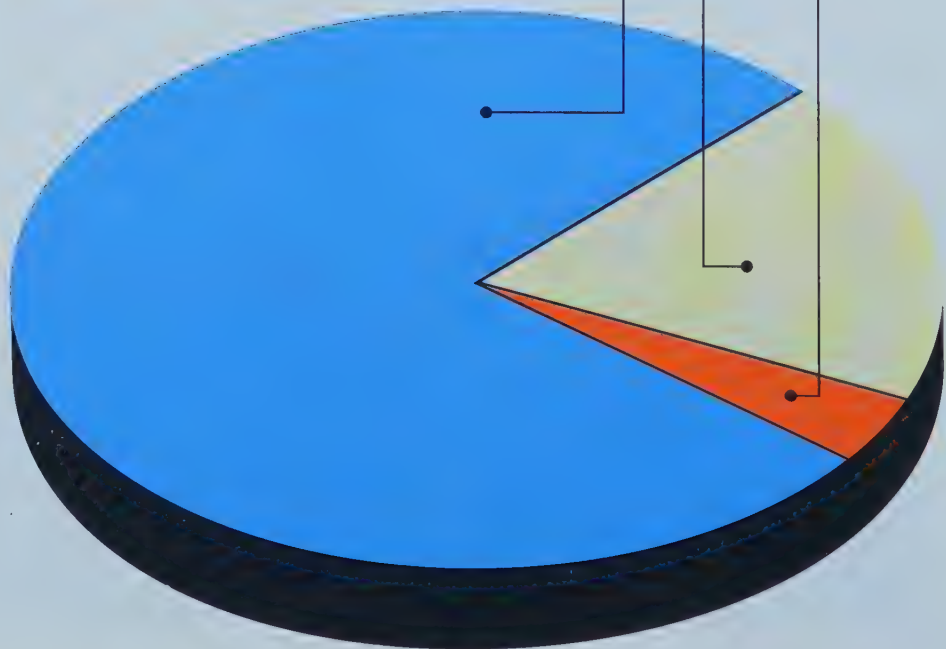
Canadian Market



U.S. Market



The U.S. market is about nine times as large as the Canadian domestic market. 17 percent of the Canadian domestic market comprises steel imported from the U.S. while the U.S. domestic market sees imported steel from Canada forming only four percent of its domestic market.



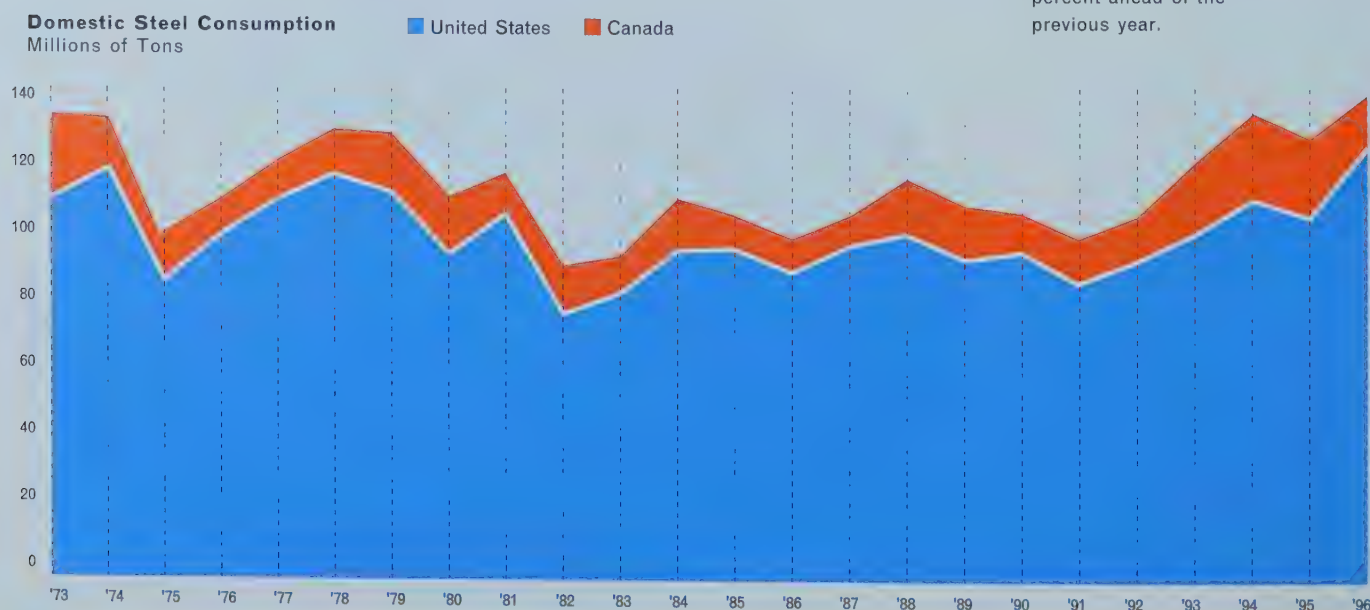
disturbing is the trend which saw imports in the 4th quarter up a whopping 63% from the same period a year ago.

20 A surge in discrete plate imports in the latter half of the year has already prompted two American plate producers to launch an anti-dumping case against Russia, Ukraine, South Africa, and China. By year end the U.S. International Trade Commission had unanimously found that there is preliminary evidence of injury to the United States industry from imports of carbon steel plate from these countries. The case will now proceed to the United States Department of Commerce where dumping margins are to be determined.

While the plate case has been drawing communications media attention, industry observers note that imports of other products, in particular hot rolled coil in both plate and sheet thicknesses, have also been increasing dramatically, and rumours of further trade suits are circulating. By far the largest source of steel imports to the United States was the European Union which saw its shipments increase by about 48 percent much of it in the last quarter which alone was close to 83 percent higher than the same period in 1995.

Canadian demand was strong as well, although less so than that of the U.S., and will probably end the year at about 14.3 million tons or five

Demand for steel in the U.S. was the highest it has been since the early 1970's. Canadian demand was strong as well, ending the year about five percent ahead of the previous year.




percent ahead of the previous year. Imports are expected to have been about 28 percent of this total.

Just as in the United States a trade case with respect to carbon steel plate has been commenced although it has not progressed as far in the legal process.

In a trade issue between Canada and the United States, a partial revocation of a U.S. anti-dumping finding on oil country tubular goods, in place since 1986, was granted by the U.S. Department of Commerce. Under the revocation no anti-dumping duties will be applied on IPSCO's exports of this product. They remain in effect, however, against other Canadian producers.

An earlier Canadian finding against standard pipe from Argentina, India, Romania, Taiwan, Thailand, Venezuela, and Brazil was extended for five years.



**Capital
expenditures of
\$126.6 million
were dominated by the
company's new mini-mill
in Montpelier, Iowa.**

Investments in New and Upgraded Facilities**23**

Capital expenditures totalled \$126.6 million which, once again, were dominated by expenditures on the company's new mini-mill in Montpelier, Iowa, which amounted to \$109.2 million.

Spending on improvements to IPSCO's existing facilities amounted to \$17.4 million, barely changed from \$16.8 million for the previous year.

Improvement programs in the heavily loaded Canadian operations were impeded by a lack of access to equipment which, because of strong demand from the market, was being pressed to supply customers, as well as delays by the supplying contractors.

By year end the eccentric bottom tapping system on Regina's largest electric furnace was finally installed and working satisfactorily after over a year's delay.

Associated programs in the steelworks design to improve internal ambient air conditions were held up by the late installation of the furnace modifications as well as contractor delays.

Expenditures on a major upgrading and expansion of the Camanche, Iowa, pipeworks commenced, aimed at bringing the total annual capacity of IPSCO's American pipe operations to 300,000 tons.

Canadian tubular operations were generally so busy as to permit only minor expenditures.

With the advent of new sources of 96-inch wide hot rolled coil, cut-to-length lines capable of handling such material will become strategic resources for those coil processors who possess them. IPSCO was able to procure a used 96-inch line in good condition which, after refurbishment, will be installed in a new stand-alone coil processing facility to serve the Canadian prairie market, replacing an obsolete operation in Regina.

« Slabs of steel up to 10 inches thick and up to 86 inches wide are produced at IPSCO's continuous slab caster in Regina.

24

In the 1995 annual report IPSCO reported a delay in the construction of its new mini-mill at Montpelier, Iowa. At that time it was expected that commissioning would be delayed until the third quarter of 1996. It was further reported that detailed discussions were still in progress with the general contractor with respect to a new schedule.



Those discussions resulted in the resolution of several major matters including a revised date after which a contract price reduction clause would come into effect, a change in the contract price related to the delay dispute, the settlement of some extra work items not related to the delay, and the withdrawal of all other major claims by the contractor. An agreement was also reached with the contractor which included an incentive formula based on the mill achieving capacity higher than the original contract tonnage of 1,000,000 tons per annum, with payments to be made over a maximum ten year period based on the mill's actual performance. In July, based on the resolution of matters in dispute with the contractor, IPSCO reforecast the project cost at U.S. \$400 million, up seven percent from the \$375 million previously estimated.

Unfortunately since then the general contractor has informed IPSCO of further schedule slippages.

IPSCO is now expecting the initial hot metal to be produced and cast at approximately the same time as this report is being mailed out. Delivery of the plant, as an operating whole, is now expected to occur in the

Construction is well underway on the U.S. \$12.4 million upgrade at the Camanche, Iowa pipemaking facility. »

second quarter of 1997. Unlike many other such projects, IPSCO contracted the Montpelier mini-mill on a “turn-key” basis. Under a fixed price arrangement the contractor was committed to delivering an operating plant to IPSCO at a fixed time.

A price reduction clause covering the first 20 weeks of delay resulted in a lower price to IPSCO from the contractor in an amount which, during the period, offset the cost of higher interest payments, idle production workers, and other time-related expenditures by IPSCO. Discussions with the contractor relating to IPSCO’s recovery of damages due to the further delays have yet to be completed.

« An eccentric bottom tapping system was installed on Regina’s largest electric furnace. It will reduce the time to empty the furnace and will allow the capture of fumes at source.



IPSCO People

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IPSCO's Fortieth Anniversary year celebrations were organized by employee volunteers, both current and retired. Kicking off the year was the publication of a book, distributed with last year's annual report, to commemorate the Fortieth Anniversary.

Picnic celebrations, also organized by employees, were held at each operating location for IPSCO families. Winners of drawing contests for younger children and an essay contest for the older ones, were awarded prizes. In addition, a total of 10 young people who were children or grandchildren of IPSCO employees received \$2,500 per year scholarships for up to four years of post-secondary education.

Preceding the company's annual meeting the directors and officers entertained a selection of former officers and directors at dinner. The highlight of the evening was a videotaped message from Bill Sharp, the company's founding president, who at age 86 is now living on Canada's west coast. Born in Kirbyville, Texas Bill was the organizer in 1956 of Prairie Pipe Ltd., since renamed IPSCO Inc. The road entering IPSCO's new Montpelier, Iowa steelworks, has been named Bill Sharp Boulevard in his honour.

Joining IPSCO shareholders at lunch after the 1996 annual meeting was Saskatchewan Premier Roy Romanow who addressed the gathering.

A very important group of IPSCO people, a number of customers and suppliers from the Canadian oil and gas producing industries, were represented by their senior officers at an anniversary dinner addressed by Alberta Premier Ralph Klein.

Average employment at IPSCO in 1996 was up five percent to 1508 as compared to the previous year.

Fitting for a Fortieth Anniversary Year were record levels of profit-sharing awards distributed to virtually every IPSCO employee. Under IPSCO's various plans a total value of \$5.8 million was shared in the form of IPSCO stock or cash. There are some 1900 "memberships" in IPSCO's various profit-sharing plans since some are eligible to participate in more than one plan.



Paper Cal Steel Co. in »
St. Paul, Minnesota
gathered its employees
together to share in
the celebrations and to
witness a little magic.

IPSCO employees at most locations, with the exception of United Steelworkers of America members, who have a separate plan, are eligible to join a voluntary profit sharing and savings plan. Under the plan individuals make contributions of between \$200 and \$1,000 annually through payroll deductions. This amount is used by independent trustees to purchase IPSCO shares on the open market on the member's behalf. At year-end a portion of the company's after-tax profit, in excess of a notional dividend payout, is shared pro-rata among the plan participants based on their own contributions up to \$500. For individuals who contributed a minimum of \$500 in 1996 a total of 124 IPSCO shares comprised of 16 shares from their own contributions plus 108 shares in profit sharing were credited to their accounts. An employee who has made annual contributions of \$500 to the plan since its inception 12 years ago would see this total \$6,000 contribution plus profit-sharing awards and dividend reinvestments result in an accumulation of 1,120 shares with a market value of approximately \$44,500.

« A celebration of IPSCO's 40th Anniversary was held in downtown Regina to allow the residents of the city to share in the landmark year. The city is home to the Company's head office and its first steel and pipemaking facilities.



United Steelworkers members at IPSCO facilities in Regina, Edmonton, and Calgary belong to a separate plan which also involves profit sharing in the form of IPSCO shares. In 1996 those employees working 520 hours in each quarter received 66 IPSCO shares (approximate value of \$2,620).

Employees in either plan may sell all or part of their shares at any time. At time of preparation of this report the plan trustees were holding 156,500 shares on behalf of plan members who had elected to retain them with a market value of \$6,200,000 as of year end.

Constant attention to safe work practices by all IPSCO people continued to pay off in 1996 as the frequency of lost time accidents dropped to .6 per 100 man years worked (see chart). A "lost time" accident is one severe enough that an employee is unable to work the next scheduled work day following an accident. In the steel industry in Canada and the United States the average frequency is 2.3, almost four times higher than IPSCO's.

Particularly contributing to IPSCO's ongoing success were the Geneva pipeworks, five years without a lost time accident; Red Deer, Surrey, and Paper Cal Steel in St. Paul each with three accident free years; and Edmonton with a one-year record.

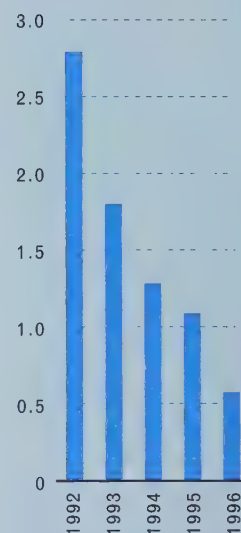
Despite its good performance IPSCO is not staying still on the accident prevention front. In 1997 the company will commence implementing a safety and health compliance audit system, developed internally following similar principles to the International Standards Organization quality assurance audit systems.

IPSCO continues to sponsor a plan designed to assist employees at all levels to further their education through off-the-job training on personal time. In 1996 some 78 employees were participants, including 43 who were hourly paid factory workers. Also in the realm of employee training the company participates in a steel industry training initiative, partly funded by the Canadian federal government and partly by the company, which is coordinated and administered by the Canadian Steel Trade and Employment Congress. For the year employee training expenditures reached a total of \$1,930,000 of which \$188,000 came from federal government funding, the balance from the company.

IPSCO regrets to report the deaths during the year of five employees for reasons unrelated to the workplace. These included William Warnecke of Paper Cal Steel and Garth Barber, Maurice Clark, Ronald Robinson, and Keith (Vernon) Ward of Regina.

To the 24 employees who retired during the year the company conveys its best wishes.

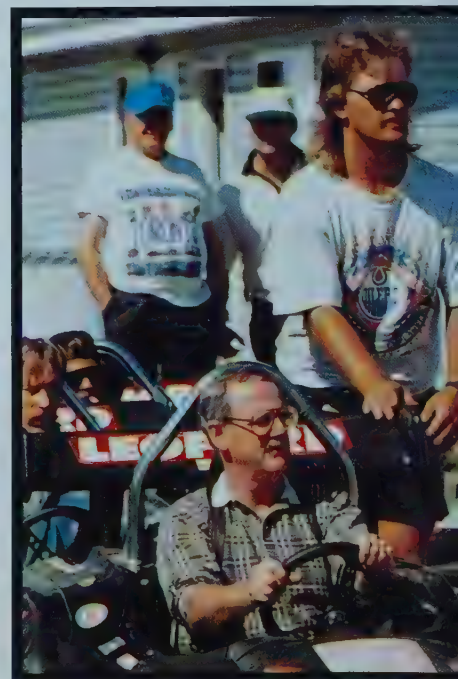
Frequency of Lost Time Accidents

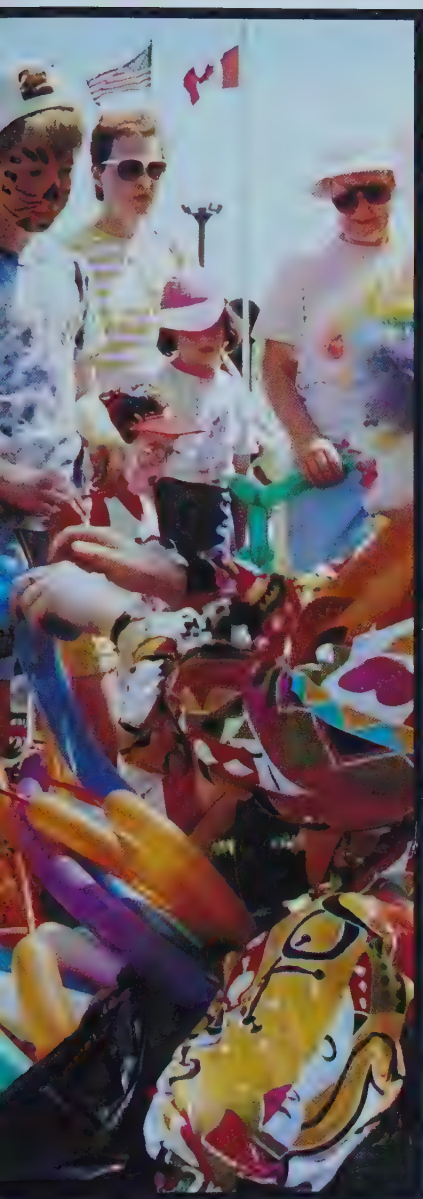


(Number of lost time accidents per 100 man years worked)

Employees came out to the Regina »

picnic in droves despite the sweltering weather to see the clowns, the musical entertainment, and to tour the facilities.





« Go-carts were a big hit, especially with teenagers at the Red Deer, Alberta picnic.

A total of 41 employees reached 25 years of IPSCO service during 1996, thus becoming members of the Quarter Century Club. The Club now boasts 208 employees as working members and a further 102 retirees, for a total of 310.

A joint company/union adjustment project established for displaced employees at Western Steel Limited in Calgary, which was closed in 1995, received approximately \$586,000 through the Canadian Steel Trade and Employment Congress arrangements with the federal government.

Directors and Officers

On the occasion of IPSCO's 1996 annual meeting Thomas E. Kierans stepped down after three years as non-executive Chairman of the Board due to the pressures of other commitments. Succeeding him as Chairman of the Board was John Beddome, a board member since 1986. Tom Kierans remains as a director from which vantage he continues to contribute his sound policy advice.

In mid-year William Bailey reached retirement age and was succeeded as Vice President and Chief Technical Officer by Peter MacPhail.

Bill Bailey had served IPSCO for 14 years in succeeding more important product and process development roles, culminating in his appointment as Vice President and Chief Technical Officer in 1992. Among many accomplishments were his roles in the design of long distance electrical transmission lines using IPSCO tubular products and the development of high strength steels for transportation applications such as subway cars and for X70 and X80 grade gas transmission pipe.

On 1 November Mario Dalla-Vicenza was named Senior Vice President, Corporate Affairs, assuming responsibility for IPSCO's relations with the general public through its Communications Department, and on trade and other matters relating to government. Succeeding him as Chief Financial Officer is Edwin Tiefenbach, C.M.A., previously Vice President, Controller and Treasurer.

Mario Dalla-Vicenza was honoured for service to the profession by being named a Fellow of the Institute of Chartered Accountants of Saskatchewan.

IPSCO as a Corporate Citizen

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IPSCO Inc. believes that it and its underlying subsidiaries owe more to society than merely obeying the laws under which they operate. Thus as a corporate citizen your company takes proactive stances in three major areas - support of community and charitable activities, enhancement of the environment, and support for industry and business generally.

IPSCO's policy is to contribute fully one percent of its pre-tax profits to charitable and community support activities. In order to smooth out such donations, yet to share both good and bad times, the company calculates this commitment based on the average of the three previous years' pre-tax profit. In 1996 such spending met the target, amounting to almost precisely one percent calculated on this basis.

IPSCO attempts to support local charities who are neglected by those firms who, by policy, support activities of a solely national nature. A wide range of educational, cultural, health, social, and recreational activities gain support. In 1996 some examples included support to the Calgary Decidedly Jazz Danceworks company, the Canada-Wide Science Fair for school children from across Canada, the Notre Dame College of Wilcox, Saskatchewan, a YWCA shelter for abused women in Camanche, Iowa, the Red Deer, Alberta Hospitals Foundation, and the Calgary "Partners in Health" Campaign, the latter two which raise money for new hospital equipment.

An innovation for IPSCO in 1996 was the Regina sponsorship of the Huron Carole, a concert tour to raise funds for food banks across Canada. This was the first time the concert had been held in Regina and IPSCO helped through a major donation plus employee involvement - employees purchased tickets and promoted the concert in the community with a sellout as the result.

As has been detailed in earlier annual reports IPSCO fosters environmental protection activities which surpass legal requirements. These range from stricter rules on PCB containing transformers to the maintenance of a wildlife park in Regina.

In 1996 IPSCO spent some \$5.4 million at existing IPSCO operations in both Canada and the United States. In addition some \$6.1 million of the



The Decidedly Jazz »
Danceworks troupe from
Calgary thrilled the
audience with their
footwork.

spending on the new U.S. mill was for environmental equipment and controls. When complete the mill will boast a total of \$30 million in capital investment for environmental purposes.


IPSCO believes that if its customers, employees, and shareholders are to prosper in the long term it should support organizations who act to preserve and enhance the free and democratic economic system which makes this possible, both at the steel and general industry levels, as well as organizations involved in broader public policy areas.

At the steel industry level IPSCO is active in the American Iron and Steel Institute (covering all three NAFTA countries), the Canadian Steel Producers Association, the Steel Manufacturers Association, the Canadian Steel Trade and Employment Congress, and the International Iron and Steel Institute, as well as numerous organizations involved in specific product or market areas. The various North American steel organizations cover differing sectors of the industry so that no one group can claim to represent the entire industry. This has not stopped steel companies in Canada and the United States from getting together to pursue a common purpose. Through the Steel Alliance, a newly formed group of which IPSCO is a founding member, the industry will spend up to U.S. \$100 million over a five-year period in a cooperative media and public relations campaign designed to ensure that the public fully appreciate the importance of steel in today's modern economy.

On a broader plane IPSCO belongs at various levels to the Chamber of Commerce movement in both the U.S. and Canada, the Iowa Association of Business and Industry, the Business Council on National Issues in Canada, and the Canadian Manufacturers Association. But steel industry and broad-based business organizations do not constitute IPSCO's full contribution in this area. For instance, IPSCO belongs to the Public Policy Forum, an organization established to foster modern professional management practices in the Canadian public service, the C.D. Howe Institute, which publishes a broad cross section of views on Canadian public policy matters, and supports the Canadian Policy Research Network which conducts research into specific public policy issues.

« IPSCO sponsored the first ever Huron Carole concert in Regina, a benefit for foodbanks. IPSCO and its employees threw themselves behind the concert to guarantee its success in Regina.





**A long-term labour
contract will permit the
company to upgrade
facilities at a capital cost
of \$25 million.**

As these words are being written, the American economy continues on its tightrope of moderate growth with low inflation. Just when rumours of impending interest rate hikes aimed at combatting inflation become persistent new data are published which show a slight slackening in economic growth or a lessening in inflation. This is invariably followed by a short period of pessimism about the outlook for growth only to be quickly pushed out of sight by another mild bout of fear that inflation is on the rise.

Steel, as a major component of a broad cross-section of capital and consumer goods, generally sees its consumption levels change with changes in economic growth. Because of overstocking by distributors and steel-using manufacturers in times of potential steel shortages, when a downturn does occur it is often sharper for steel company orders than in actual steel consumption. In the past this has meant that a minor downturn can mean a major disruption to steel producers. But in this era of enhanced inventory control systems and "just-in-time" deliveries many industry analysts believe the danger of massive overstocking is less than in earlier years.

Overarching the impact of changes in economic growth, a major determinant of sales by North American domestic steel producers is the level of imports from offshore. The significant increase and upward trend in imports in 1996 has been discussed under Trade Matters.

IPSCO's current view for 1997 is that general steel demand in both the United States and Canada, the latter's economy being highly influenced by that of the former, should remain at about current levels, absent any major shift downwards in economic activity but with a major uncertainty being the course of disruptive imports.

Because roughly one third of IPSCO's tonnage shipments are in the form of tubular products destined for oil and gas exploration, development, and transmission, the company's profitability for 1997 will also be driven by the state of that market, particularly in the Canadian west. As this report is being printed, demand in Canada for oil country tubular goods continues at a record clip and IPSCO has in hand a modest order for large diameter gas transmission pipe for the second quarter.

« Farm implement manufacturers are one customer for the company's plate and sheet product. Here, parts have been cut out of a sheet of steel for fabrication into a farm implement.

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Barring a substantial drop in international energy prices there is no reason to expect that drilling activity should not remain strong, with the exception of the usual "spring break-up" in the second quarter when thawing conditions disrupt drilling rig movements. In addition, several long distance gas and oil pipeline projects are in the planning and/or regulatory approval stage. Some of these will require a combination of high strength steels and thicknesses for which IPSCO's large diameter facilities are not equipped. However the recent negotiation of a long-term labour contract expiring in mid-2002 has permitted the company to proceed with plans to upgrade both its Regina steel and pipemaking facilities, at a capital cost of \$25 million, in time to produce material to these new specifications. Project business of this sort is based on a tendering process so what share, if any, IPSCO will eventually be awarded is not predictable.

The delay in the construction of IPSCO's new Montpelier, Iowa steelworks, as described earlier, means that no significant positive or negative impact to the company's bottom line will be registered in 1997 by new sales emanating from that operation. While production is expected to start in the second quarter IPSCO's accounting practice means that startup and commissioning costs will be capitalized as part of the project cost until a break-even operating level is achieved, 50 percent of capacity production is reached, or six months has passed, whichever is the shorter time frame. Thus, while IPSCO expects to be selling output from the new mill in 1997, profits or losses resulting from such sales will probably not be recorded until late in the year.

In summary, barring a major shift in the economy or in energy prices, and provided steel imports from offshore do not cause further problems for domestic producers, IPSCO should enjoy continuing profitability in 1997.

While 1998 may bring further challenges on the economic front the new steelworks should have achieved reasonable production levels by then with a positive impact on after-tax profits.



Roger Phillips
President and Chief Executive Officer
28 February 1997

Six Year Summary

Year ended 31 December		1996	1995	1994	1993	1992	1991
Operations	Production of Raw Steel	1,014.5	1,021.4	1,177.2	1,004.1	892.3	854.5
	Shipments	1,160.1	1,011.1	1,350.3	999.2	804.3	810.9
	Sales Per Ton*	\$ 694	\$ 699	\$ 628	\$ 574	\$ 597	\$ 664
	Less: Cost of Sales Per Ton*	<u>571</u>	<u>554</u>	<u>537</u>	<u>505</u>	<u>539</u>	<u>562</u>
	Gross Profit Per Ton*	\$ 123	\$ 145	\$ 91	\$ 69	\$ 58	\$ 102
	Average Number of Employees*	1,508	1,438	1,760	1,671	1,538	1,658
Statement of Earnings	Sales	\$ 804.9	\$ 706.3	\$ 847.9	\$ 573.2	\$ 480.4	\$ 538.7
	Less: Cost of Sales	661.9	560.1	725.4	504.8	433.6	455.7
	Interest on Long-Term Debt	2.0	7.5	16.7	4.7	5.6	6.5
	Amortization	<u>19.2</u>	<u>19.8</u>	<u>16.4</u>	<u>16.8</u>	<u>15.6</u>	<u>16.6</u>
	Income Before Income Taxes	121.8	118.9	89.4	46.9	25.6	59.9
	Less: Income Taxes	<u>38.5</u>	<u>37.2</u>	<u>31.7</u>	<u>18.2</u>	<u>10.1</u>	<u>23.6</u>
	Net Income	\$ 83.3	\$ 81.7	\$ 57.7	\$ 28.7	\$ 15.5	\$ 36.3
Statement of Changes in Cash Position	Cash Flow from Operating Activities						
	From Earnings	\$ 95.3	\$ 98.1	\$ 75.5	\$ 46.1	\$ 27.2	\$ 56.9
	From Operating Working Capital	<u>(41.1)</u>	<u>(3.9)</u>	<u>58.6</u>	<u>(78.0)</u>	<u>7.6</u>	<u>13.3</u>
	Total Dollars	\$ 54.2	\$ 94.2	\$ 134.1	\$ (31.9)	\$ 34.8	\$ 70.2
	Cash Capital Expenditures	\$ 118.2	\$ 237.8	\$ 174.6	\$ 40.0	\$ 22.4	\$ 32.9
Financial Position at Year End	Current Assets	\$ 529.6	\$ 373.5	\$ 341.8	\$ 556.9	\$ 248.3	\$ 204.2
	Less: Current Liabilities	<u>177.5</u>	<u>148.1</u>	<u>182.7</u>	<u>127.9</u>	<u>82.3</u>	<u>82.3</u>
	Working Capital	\$ 352.1	\$ 225.4	\$ 159.1	\$ 429.0	\$ 166.0	\$ 121.9
	Capital and Other Long-Term Assets	<u>874.3</u>	<u>833.6</u>	<u>892.7</u>	<u>281.1</u>	<u>257.1</u>	<u>253.7</u>
	Total Investment	\$ 1,226.4	\$ 1,059.0	\$ 1,051.8	\$ 710.1	\$ 423.1	\$ 375.6
	Less: Long-Term Debt	\$ 385.6	\$ 286.3	\$ 340.8	\$ 58.0	\$ 57.8	\$ 57.7
	Deferred Items	<u>49.5</u>	<u>53.2</u>	<u>48.7</u>	<u>53.0</u>	<u>44.5</u>	<u>48.7</u>
	Shareholders' Equity	\$ 791.3	\$ 719.5	\$ 662.3	\$ 599.1	\$ 320.8	\$ 269.2
Financial Ratios	Return on Common Shareholders' Equity	11%	12%	9%	6%	5%	14%
	Long-Term Debt as a % of Total Capitalization	33%	28%	34%	9%	15%	18%
	Current Ratio	3.0:1	2.5:1	1.9:1	4.4:1	3.0:1	2.5:1
Shareholder Information	Net Income Per Common Share*	\$ 3.07	\$ 3.01	\$ 2.13	\$ 1.42	\$ 0.98	\$ 2.53
	Dividends Paid Per Common Share*	0.48	0.48	0.48	0.48	0.48	0.48
	Shareholders Equity Per Common Share*	29.19	26.55	24.46	22.14	19.01	18.61
	Range of Market Value of Stock - High*	39.35	30.00	27.75	27.40	24.12	25.00
	- Low*	28.40	22.00	21.75	19.20	16.25	17.75
	Number of Common Shares	27.1	27.1	27.1	27.1	16.9	14.5

* Dollars and number of shares in millions and tons in thousands except as indicated by asterisk.

Corporate Information

Directors

John Beddome*
Calgary, Alberta
Independent Businessman
and Corporate Director

Burton Joyce*
Sioux City, Iowa
President and Chief
Executive Officer, Terra
Industries Inc.

Thomas Kierans*
Toronto, Ontario
President and Chief
Executive Officer, C.D.
Howe Institute

Harold MacKay, Q.C.**
Regina, Saskatchewan
Partner, MacPherson Leslie
& Tyerman

Allan Olson**
Edmonton, Alberta
President, Olson
Management Ltd.

Roger Phillips*
Regina, Saskatchewan
President and Chief
Executive Officer,
IPSCO Inc.

Arthur Price*
Calgary, Alberta
President and Chief
Executive Officer, Axia
Multimedia Corporation

Richard Sim**
Milwaukee, Wisconsin
Chairman, President and
Chief Executive Officer,
Applied Power, Inc.

Kim Thorson, Q.C.**
Weyburn, Saskatchewan
Barrister & Solicitor, Hardy
and Thorson

Murray Wallace**
London, Ontario
President, Avco Financial
Services Canada
Limited

William Woodward**
Calgary, Alberta
Director, Reed Stenhouse
Companies

John Zaozirny, Q.C.*
Calgary, Alberta
Counsel, McCarthy Tetrault

* Members of the
Management
Resources and
Compensation
Committee

** Members of the Audit
Committee

Officers

John Beddome
Chairman of the Board

Roger Phillips
President and Chief
Executive Officer

Charles Backman
Senior Vice President and
Chief Administrative and
Engineering Officer

Mario Dalla-Vicenza
Senior Vice President
Corporate Affairs

Peter MacPhail
Vice President and
Chief Technical Officer

Joseph Russo
Vice President and General
Manager, U.S.
Steel Mill Products

Robert Rzonca
Senior Vice President and
Chief Personnel Officer

Charles Sanida
Vice President and General
Manager, Canadian Steel
Mill Products

David Sutherland
Senior Vice President,
Corporate Operations

Edwin Tiefenbach
Vice President and Chief
Financial Officer

John Tulloch
Vice President and General
Manager, Tubular Products

John Comrie, Q.C.
Secretary

Douglas Ballou
Assistant Secretary

Anne Parker
Assistant Secretary

Auditors

Ernst & Young

Listings

The Toronto Stock
Exchange
The Alberta Stock Exchange
The New York Stock
Exchange

Registrars and Transfer Agents

Montreal Trust Company
The Bank of New York

Stock Symbol

IPS

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Camanche, Iowa
2011 - 7th Ave.

Paper Cal Steel Co.
P.O. Box 64303, St. Paul,
Minnesota

Edmonton, Alberta
6735 - 75th St.

Red Deer, Alberta
Central Park Road

Geneva, Nebraska
R.R. 2, Box 30A

Surrey, British Columbia
8250 - 130th St.

Principal Subsidiaries

IPSCO Saskatchewan Inc.
IPSCO Enterprises Inc.
IPSCO Tubulars Inc.
IPSCO Steel Inc.
Paper Cal Steel Co.

On peut obtenir la version française de ce rapport
sur demande écrite adressée à:

IPSCO Inc. Communications
C.P. 1670
Regina (Saskatchewan) S4P 3C7

IPSCO Locations



Sales Phone Numbers

Canada

1-800-667-1616

1-800-663-0777

1-800-946-8772

Tubular Sales

Steel Mill Processing

Coil Processing

United States

1-800-360-4772

1-800-340-5665

1-800-383-9031

1996

IPSCO INC.

Introducing IPSCO

Introducing IPSCO Inc.**2**

IPSCO Inc. is a shareholder-owned, publicly traded corporation with its head office in Regina, Saskatchewan. Its twelve person board of directors includes members from both Western and Central Canada and the United States, with business, economics, and legal backgrounds. Only one director, the president, is a company employee.

IPSCO Inc. was incorporated in 1956 under the name of Prairie Pipe Ltd. with ownership of its shares solely in the hands of some nine investors. The company proceeded to install pipe making facilities in Regina. It was listed on the Toronto, Winnipeg and Vancouver stock exchanges in 1958 and is currently traded on the Toronto and Alberta Stock exchanges in Canada and the New York Stock Exchange in the United States. In 1960 it took over, through a share exchange, the financially troubled Interprovincial Steel Corporation in which the government of Saskatchewan owned some shares. Thus government became a minor owner via the back door, as it were, of what was eventually to become IPSCO.

The enlarged Prairie Pipe, renamed Interprovincial Steel and Pipe Corporation Ltd., then completed the steel mill which Interprovincial Steel had under construction adjacent to the pipe operations.

Over the years the company expanded on both the Regina site and elsewhere through new construction as well as acquisition. In 1984 it changed its name to IPSCO Inc., adopting the acronym by which it was generally known, as the full name. Saskatchewan government ownership fluctuated from time to time but in 1990 the government sold all but .7 percent of its then 15.6 percent holding. Today the Saskatchewan government holds only 10 shares of the company. The government of Alberta held a 20.2 percent interest in the company for 19 months ending in 1975 after which its shares were sold to two Alberta companies who have since liquidated their holdings.

Today, IPSCO's shares are almost entirely in the hands of individual investors or financial institutions or instruments, such as insurance companies, pension plans, mutual funds, and the like.

IPSCO's sole line of business is steel making and fabricating. Currently, IPSCO's only steelmaking facility is its Regina steelworks with an annual

- pipe for gathering oil and gas from wells, transmitting it long distances, and for the final distribution to end-customers (pipe for these purposes is collectively referred to as “line pipe”),
- water and sewage transmission pipe
- tubular products for building and construction applications, most often in square or rectangular cross-sections referred to in trade circles as “hollow structural sections” or “HSS”).

IPSCO produces tubular products up to 24 inches in diameter by the electric resistance weld process (“ERW” for short). In the process a coil of steel is continuously fed through a set of rolls to bend it into a cylindrical hollow shape with the coil’s length as its axis. The two edges are then heated to red-hot temperatures by applying electrical energy and forced or forged together such that the edges are fused permanently upon cooling.

To produce rectangular or square tubes the round pipe is immediately put through a set of forming rolls to alter its shape.

Pipe diameters of 24 inches to 80 inches, chiefly used in gas and oil long distance transmission, are produced by a process called “spiral pipe making”. Coils of steel are continuously fed into equipment which forms a tube by winding it spirally and then welding it together. IPSCO produces spiral pipe at Regina and Edmonton.

An alternative process to the production of hot rolled coils involves rolling individual steel plates from .5 to 2 inches thick, up to 74 inches wide, and in lengths typically from 8 feet to as many as 65 feet long. The individual steel plates are sold to industrial customers who produce such varied end products as bridges, mining equipment, gears, cranes, ocean vessels, plates and flanges.

IPSCO’s business philosophy is that it exists to serve customers. While this “truism” is undoubtedly embraced by all manufactures, IPSCO has put its philosophy into practise in a three-pronged approach stressing service, quality, and research and product development.

IPSCO’s commitment to servicing its customers is ensured through the maintenance of five strategic sales centres for steel, fabricated and tubular products, located in Calgary, Alberta; Camanche and Montpelier, Iowa;

production capability of one million tons of liquid steel produced in two electric arc furnaces.

The major raw material used in the steel making process is iron or steel scrap (the major source of metallic iron for IPSCO) or direct reduced iron pellets. IPSCO's total annual consumption of iron and steel scrap in Regina can be more than 1.1 million tons, thus the company is a large recycler of steel.

IPSCO's Canadian steelworks purchases scrap from a network of scrap dealers and processors chiefly located in the Canadian prairie provinces, the nearby "Plains" states of the United States, and the Minneapolis-St. Paul area of Minnesota. Scrap from the latter area is brought to Regina in uniquely designed rail cars which deliver coiled steel to the Camanche and St. Paul facilities and then return with loads of purchased scrap.

The electric arc steelmaking process uses electrical energy which flows through graphite electrodes positioned above the raw materials creating an electrical arc at temperatures up to 5500 degrees Fahrenheit. The use of this electricity makes the Regina steelworks a large consumer of electricity (nearly 600 million kilowatt-hours per year).

In addition, the graphite electrodes are slowly but constantly consumed in the process. Other raw materials include alloys such as manganese, silicon, niobium, vanadium and molybdenum. These alloys are added to certain types of steel in order to impart special properties such as strength, corrosion resistance, and weathering characteristics. Oxygen is used to remove impurities during the steelmaking process and to provide additional energy for melting the raw materials. Carbon dioxide and argon gases are used to shield the liquid steel from air contamination during refining and pouring.

About 175,000 tons of furnace slag is generated each year (comprising chiefly iron oxide) and is put to good use when sold for roadway and parking lot landfill. A minor by-product, iron oxide "fines" removed from cooling water are sold to cement companies who use them as a raw material.

Electric furnace steelmaking is environmentally friendly. About 50 million Imperial gallons of water are circulated daily in the steel melting and casting operations, chiefly as a process coolant. This water is constantly re-treated,

purified, and then recycled. Some additional water is used in the company's rolling facilities and pipeworks. The goal is to operate the water system with zero discharge. When this is achieved, new water is needed only to replace water lost because of evaporation.

The Regina Works includes a modern slab caster which converts the steel to continuously cast slabs up to 10 inches thick and up to 86 inches wide. The slabs are usually cut into 30 foot lengths, reheated in a gas-fired furnace to a temperature of 2300 degrees Fahrenheit, and rolled on a hot rolling line into strips of steel from .075 to .75 inch thick and up to 3000 feet long which are then coiled up for ease in handling and transport.

The hot rolled coils are sold to customers who cut them into smaller pieces and then fabricate a myriad of end products ranging from lamp poles, oil tanks, railroad cars, and farm implements to truck bodies. A large percentage of IPSCO's coiled steel is purchased by firms who operate "cut-to-length" equipment, breaking coils as heavy as 25 tons into smaller sizes and quantities for industrial consumers whose steel consumption does not warrant operating their own cut-to-length facilities.

IPSCO itself operates cut-to-length equipment in Regina and in Surrey, British Columbia; a subsidiary, Paper Cal Steel Co. of St. Paul, Minnesota, operates cut-to-length equipment situated there.

Another use for the hot rolled steel coils is in the production of tubular products. In this area, companies in the IPSCO Group are the best customers for steel produced at Regina because either IPSCO or its subsidiaries operate pipe making facilities in Calgary, Red Deer and Edmonton, Alberta; Camanche, Iowa; Geneva, Nebraska; and Regina itself. IPSCO makes pipe from 2 inches to 80 inches in diameter but not all pipe mills in the IPSCO group have the same product and size ranges.

The products made include:

- plumbing pipe for water distribution (primarily in multi-family dwellings and commercial or industrial establishments),
- oil and gas well casing and tubing (referred to in the trade as "oil country tubular goods" or "OCTG"),

St. Paul, Minnesota and Regina. These centres are staffed by a knowledgeable team of sales people with both commercial and technical backgrounds who can provide a depth of knowledge second to none regarding IPSCO products.

The ever-increasing demand for the supply of quality products which not only display consistent compliance with customer specifications but also demonstrate a reliability of performance within the customers own process, is achieved by an ongoing commitment to continuous analysis and improvement of our production system. Modern statistical process control methods and sophisticated testing techniques in combination with the application of nationally recognized quality standards ensure that IPSCO's customers receive a consistently high quality product. All of IPSCO's works are registered under the ISO 9002-94 quality standards for the production of steel and tubular products.

Research activities are carried out at the modern Research Centre in Regina.

Continual improvements are being made in the systems used to schedule, manufacture and ship IPSCO products so that efficient and timely delivery is ensured.

Since its founding in 1956 IPSCO has pursued a policy of upgrading its facilities to take advantage of technological developments which can be translated into higher quality or lower costs. Despite being its forty first year, IPSCO can point to the fact that the average age of its approximately \$496 million fixed assets is 7.4 years reflecting its desire to operate with equipment and processed which are on the leading edge of steel technology.

IPSCO has underway expansions and/or major upgrades at its Canadian and American pipe operations as well as at the Regina steelworks. IPSCO is currently constructing a one and one-quarter million ton capacity steel mini-mill in Montpelier, Iowa specializing in plate production. The mill is scheduled for completion in 1997.

It is hoped that this brief introduction to IPSCO will be of assistance to our newer shareholders. It will be updated from time-to-time.

1996

Ipsco Inc.

Management Discussion and Analysis

and Audited Financial Statements

1996

Ipsco Inc.

Management Discussion and Analysis

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2

From a product category perspective energy related tubulars were up 31 percent in tonnage, and fabricated products including cut-to-length flat-rolled, standard pipe, and hollow structurals, saw a 23 percent increase. Steel mill products, including hot rolled coil and discrete plate, were virtually unchanged.

IPSCO's sales exceeded its raw steel production capability, with purchased hot rolled coil and some cast slabs being used as supplements where procurement costs made it economically feasible. Generally speaking no orders were accepted which could not support the additional cost of purchased steel. This internally imposed price discipline meant that certain geographical or product areas were downplayed in favour of more profitable ones.

In terms of general price patterns the year was almost a mirror image of 1995 which saw early price strength erode quarter by quarter. In contrast, prices started firming early in 1996 and then, except for a few cases, rose to their highest by the year-end. Exceptions to this rule were in commodity grade coil and plate and in some products manufactured from them. Weakening demand in the European Union and the need for hard currency by many eastern European countries saw low priced imports hit those portions of Canada and the United States readily accessible by ocean transport.

A higher value-added product mix, combined with the discipline of purchasing steel supplies from third parties, meant that IPSCO was less affected than certain other competitors by price pressures from imports. On a year-to-year comparison the average unit selling price was virtually unchanged but, more importantly, it was up just under six percent in the fourth quarter as compared to the previous final quarter.

Steel Mill Products

Steel mill products include hot rolled coil and heavy plate. Sales of 269,100 tons were almost unchanged from the previous year. Primarily because of better profit opportunities in other lines, coil sales were allowed to drop some nine percent but sales of discrete plate increased about 23 percent. On a full year-to-year comparison, the average unit selling price for this group was improved by less than one percent.

Tubular and Other Further Fabricated Products

Energy Related Tubulars

This sector includes sales for both down-hole and transmission applications for oil and gas and amounted to 495,000 tons, up 31 percent from the previous year. Oil country tubular

goods (used as well casings and to channel oil and gas to the surface) and small diameter line pipe (used to hook up wells to transmission systems) saw a 21 percent rise, large diameter spiral weld gas transmission pipe doubled, while mid-range line pipe (16 to 24 inches in diameter) grew 17 percent.

Particularly high levels of oil and gas well drilling in Canada, spurred by high energy prices, were the main driving force behind the higher sales of oil country tubulars and small diameter line pipe. In the U.S., where IPSCO's pipe making facilities are relatively distant from drilling areas, the company concentrates on smaller volumes of product requiring special steel grades which command higher prices.

Large diameter oil and gas transmission line projects were scarce in North America but the major ones were close to IPSCO's large diameter facilities, making it possible to increase sales over the previous year.

The average unit selling price for the group was down almost 5 percent, largely reflecting the impact of some large projects booked in late 1995, at a time of price weakness. Comparing fourth quarter to fourth quarter, prices rose on average just over seven percent.

Fabricated Products

This group includes all of IPSCO's sales of products undergoing manufacture subsequent to the steel mill, except for tubular goods destined for the oil and gas industry. As such it comprises cut-to-length steel manufactured at three IPSCO coil processing facilities, as well as hollow structural sections and standard pipe produced at the company's various pipe manufacturing facilities.

Tonnage sales amounted to 396,000, a rise of 23 percent from the 322,600 tons sold in 1995. The higher sales level reflects both high demand from steel product users such as machinery and equipment manufacturers and in particular a strong farm implements manufacturing sector, and the wider product ranges available from IPSCO's recently modernized coil processing facilities in St. Paul, Minnesota, and Surrey, B.C. Cut-to-length products were up 29 percent, hollow structurals 24 percent, and standard pipe 11 percent. Increased standard pipe tonnage came largely in the United States where IPSCO is consciously emphasizing this product at its Camanche, Iowa, pipe mill.

Average unit selling prices for this group were indirectly under pressure because of the availability to IPSCO's competitors of low priced imported feed stock, as well as some

overcapacity in the industry. In consequence, prices were off just under four percent on a year-over-year basis, but were up almost four percent on a final quarter comparison basis.

1995 Compared to 1994

4

In 1995 sales at 1,011,100 tons were 339,200 tons or 25 percent lower than 1994. About two thirds of the shortfall can be attributed to lower demand for energy related products from the oil and gas production and distribution industries, while most of the remainder reflects IPSCO's withdrawal from reinforcing bar production, following the permanent closure of its Western Steel subsidiary's Calgary steelworks. Excluding reinforcing bar sales for 1995 and 1994 the total tonnage would have been 968,400 and 1,212,800 tons respectively, a 20 percent drop.

In 1994 IPSCO purchased substantial amounts of flat-rolled steel from third parties, permitting it to increase its market share for processed coil and tubular products. Despite the slackened demand for energy related products in 1995 IPSCO was by and large able to retain the increased share elsewhere. As a result IPSCO operated its own flat rolled steel facility at near capacity while reducing outside purchases.

Steel prices in Canada and the U.S. generally peaked in the first half of the year. While end-product demand, with the exception of automobiles, remained strong, excess inventories in the hands of distributors prompted them to restrict their own purchases. This combined with new steel production capacity in the U.S. caused a minor oversupply situation. The result was price discounting by many suppliers of flat rolled steel products, which increased as the year progressed. Nevertheless excluding the effect of discontinued bar product, IPSCO's average unit price for the full year exceeded 1994 by nine percent. This reflects both the high level from which discounting started and IPSCO's de-emphasis of lower priced and less profitable sales in favour of more value-added products. A more realistic way of examining price trends for IPSCO products is to compare the fourth quarters of each year. On this basis 1995 fourth quarter average unit prices were two percent or just marginally ahead of the previous year's comparable period.

Steel Mill Products

In 1995 and 1994 steel mill products also included reinforcing bar as well as hot rolled coil and heavy plate. Sales tonnage was down 30 percent from 1994 but ignoring reinforcing bar shipments in both years, the drop was 13 percent. Heavy plate shipments increased

slightly while coiled product sales fell, primarily those to other pipe-makers and steel distributors who have a high dependence on energy related sales.

As was the case for IPSCO's overall sales, price erosion for steel mill products took place from a peak reached during the first six months of 1995. Nevertheless, excluding the effect of discontinued bar product, on a year-over-year basis, IPSCO's steel mill products' average unit price was higher by almost 17 percent.

Tubulars and Other Further Fabricated Products

Energy Related Tubulars

Sales to this sector fell by almost 30 percent in terms of tons shipped.

Shipments related to drilling activity (casing and tubing used in oil and gas wells, and smaller diameter line pipe used in gathering systems) were down 24 percent. United States drilling remained weak while Canadian activity, although robust, was off from the record high of 1994.

Tonnage sales of larger diameter pipe used in long distance oil and gas transmission fell by almost one half, reflecting lower pipeline construction activity. The average selling price for energy tubular products increased by about 13 percent on a year-over-year basis with price changes during the year generally following the pattern of overall steel products that was previously described.

Fabricated Products

Tonnage sales were down five percent, principally due to lower sales of hollow structurals, which were down by 25 percent. Sales of cut-to-length products were strengthened in the United States as a result of cut-to-length product available from the new processing line at Paper Cal Steel in St. Paul, Minnesota. The new line has permitted the processing of higher strength materials at widths which were beyond the capability of the previous line. Sales of hollow structurals in the U.S. were enhanced by the addition of four new sizes.

The average selling price for fabricated products increased by about six percent on a year-over-year basis. While cut-to-length price changes were close to the overall Company average, fabricated products as a group was affected negatively by lower year-over-year price changes in both standard pipe and hollow structurals.

Cost of Sales

Summary

Cost of sales increased by 19 percent to \$619.8 million in 1996 after having fallen 24 percent to \$521.4 million in 1995 from \$687.7 million in 1994.

1996 Compared to 1995

The operating level of a particular IPSCO unit ultimately depends on economic factors such as overall demand and potential profitability. In some years, when demand is low, IPSCO, except for size ranges and grades it does not produce, manufactures all the steel it needs to serve both third party customers and its captive tubular products and coil processing facilities. At other times the demand can exceed internal steelmaking capability and in these circumstances steel production is supplemented by purchases from other steel producers. Because of the high freight costs inherent in the location of some IPSCO plants, however, the quantity of purchased steel which can generate a profit is a limiting factor.

In 1996 conditions were such that IPSCO could run its own steelmaking at virtually full capacity and also purchase some 295,000 tons of steel from third parties, up from 81,600 tons a year earlier.

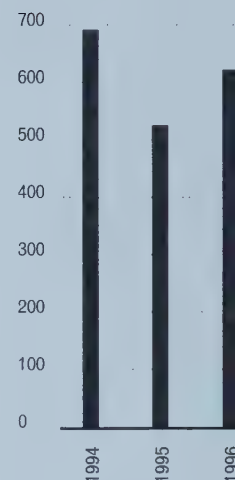
Therefore the increase in cost of sales in 1996, though mainly the result of higher volume sold, was also the result of a higher volume of steel purchased for further processing as well as the effects discussed in the following paragraphs.

The cost per ton of mill edge hot rolled coil fell one percent ("mill edge" coil is steel produced directly off the rolling mill in coiled form without further processing). The cost of raw materials going into a ton of such coil was virtually unchanged as scrap costs dropped only to be offset by a comparable rise in alloys and fluxes. Therefore internal operating efficiencies were the major contributor to the overall cost improvement.

The number of hours worked per ton of product shipped fell to a record low 2.4 from 2.8 a year earlier. While some of the year-over-year improvement reflects the reduced manpower requirement that is inherent in the use of a larger quantity of purchased steel it nevertheless was well below the 2.7 man hours per ton shipped in 1994 when substantial quantities of purchased steel were also consumed. The number of man hours per ton to produce a ton of coil being the same at .85 in both years, the balance of the year-over-year improvement in hours worked per ton shipped in 1996 was due to efficiencies in IPSCO's coil processing and fabricating facilities.

Cost of Sales

(millions of dollars)



Raw Materials

Iron and steel scrap, IPSCO's major raw material, varies in price with supply and demand. Typically not only domestic but offshore factors come into play as Canada and the U.S. combined are net scrap exporters. Average scrap prices declined somewhat despite the coming on stream of new electric furnace steel operations which are heavy scrap consumers. However lower demand from offshore markets and an abundance of scrap substitutes at good prices, particularly pig iron, acted as price dampeners on scrap. The unit cost of prepared scrap charged to production in IPSCO's Regina steelworks fell four percent.

Carbon electrodes, which channel the electricity to create the arc in electric steelmaking furnaces, are eventually consumed in the process. With increased demand due to the high level of mini-mill activity in North America the price of electrodes increased by eight percent on a year-over-year basis.

The average cost of electricity consumed at all company locations was virtually unchanged.

Steelmaking

Raw steel production at the Regina steelworks amounted to 1,014,500 tons for the year, 3 1/2 percent ahead of 1995, but two percent below the record year of 1994. Capacity utilization at 93 percent exceeded the previous year's figure of 88 percent and was constrained, not by market conditions, but by, among other causes, a higher degree of interruptions in the supply of electricity to the company's two electric steelmaking furnaces (under a long-term contract IPSCO's electricity supply in Regina is subject to up to 150 hours of interruption a year, in return for a lower price). These interruptions, termed "peak shaving", are more likely to occur in very cold weather and re-starting production under such conditions can eat up significant potential production time after power has been restored.

Tubular Production

Increased demand across the gamut of tubular products offered for sale by IPSCO translated into higher capacity utilization for the company's Canadian pipe production facilities, which operated at an average level of 41 percent compared to 33 percent for the previous year. Nevertheless this was lower than experienced in the early 1990s when there was a higher demand for large diameter pipe.

Utilization of IPSCO's large diameter spiral mills rose to 32 percent from 23 percent in 1995 while that of the electric resistant weld mills rose to 47 percent from 41 percent.

IPSCO's American pipe mills saw a slight increase in utilization, reaching 33 percent compared to 31 percent for the previous year.

The cost of pipe "conversion", the difference between the cost of a ton of finished pipe and a ton of steel strip used in its manufacture continued to improve, with particularly significant gains at the U.S. locations.

Coil Processing Centres

Nineteen ninety-six saw the first full year of operation following modernizations of IPSCO coil processing facilities at St. Paul, Minnesota and Surrey, British Columbia. The enhanced capability of these operations resulted in record production levels because of both improved throughput capability and an expanded product range. This experience has prompted the preparation of a plan to replace the Regina cut-to-length operation with a similar stand-alone unit to serve the Canadian prairie provinces.

1995 Compared to 1994

At the start of 1995 IPSCO was buying significant quantities of steel to supplement its own production but opportunities to profitably resell further fabricated material grew fewer as 1995 progressed. Unlike 1994, no IPSCO production facility was operated at capacity throughout the year. Purchased steel amounted to 81,600 tons compared to 247,000 tons in 1994.

The decrease in cost of sales in 1995 therefore, though mainly the result of lower volume sold, was also in part the result of a lower volume of steel purchased for further fabricating as well as the effects discussed in the following paragraphs.

The cost per ton of mill edge coil, considered to be a significant barometer of the company's overall cost performance, increased 2.6 percent from 1994. Ignoring cost increases in major raw materials, primarily scrap, the increase was less than half of one percent.

The number of man hours worked per ton of product shipped rose from 2.7 to 2.8, or 3.7 percent. The higher figure was mainly due to a lower percentage of purchased steel.

Man hours consumed in the production of one ton of mill edge coil was .85, almost imperceptibly changed from .84 a year earlier.

Raw Materials

Iron and steel scrap, the company's major raw material, rose in cost for the third year in a row. The cost per ton for prepared scrap charged to production in Regina averaged five percent higher than in 1994. Its cost peaked in February but by year end was 11 percent below the high. Part of the decrease was due to scrap market conditions, the balance from freight savings as scrap was purchased from suppliers that previously sold it to the Western Steel reinforcing bar operation in Calgary. This scrap was shipped to Regina, displacing scrap from more distant U.S. locations.

Electrodes, used in the electric furnace steelmaking operation, went up in cost just over six percent compared to 1994.

Electricity, an important input at all the Company's production operations, but particularly key in electric furnace steelmaking, averaged 3.5 percent higher in unit cost terms.

Another important source of energy is natural gas, used to heat steel as part of the process during post-solidification fabrication, as well as a supplemental fuel in the electric furnaces. The average cost increased five percent on a year-over-year basis, however the year-end cost was below that of 1994.

Steelmaking

IPSCO produced 1,021,375 tons of liquid steel, some 13 percent below 1994. The prime reason for the drop was the cessation of steel production at the Calgary steelworks of Western Steel in April, due to a labour dispute which subsequently resulted in the permanent closure of that operation.

The Regina Steelworks produced 980,300 tons of liquid steel, down from the 1,036,000 figure recorded in 1994. All of Regina's steel production is converted to hot rolled coil or heavy plate at the steelworks, either for sale or transfer to IPSCO's further fabricating and tubular production facilities. Capacity utilization at the steelworks was 88 percent, compared to 96 percent in 1994. With the slightly lower demand for its products the steelworks took two major outages totalling 26 days, permitting major maintenance and the implementation of certain capital projects, as well as keeping inventory levels in proper balance.

Production costs and productivity had been an ongoing problem at the Calgary steelworks of Western Steel Limited, an IPSCO subsidiary which produced steel reinforcing bars in a small electric furnace shop. Early in 1995 stalled labour negotiations resulted from

attempts to introduce a pay scheme designed to ensure that productivity lapses at key process points would not reoccur. In order to permit an orderly and safe shutdown of operations, Western Steel locked out the employees in April, shortly after the workers voted in favour of giving the union executive the right to call a strike at a time of its choosing. Unfortunately subsequent negotiations yielded no solution. Western Steel consequently accepted an offer from Birmingham Steel Corporation of the U.S. to purchase all the Calgary production equipment. Western Steel is dismantling the buildings, remediating the site and preparing the land for sale.

Tubular Production

The lessening in demand for tubular products in energy related applications translated into lower utilization of IPSCO's Canadian pipe operations. Capacity utilization averaged 33 percent, a substantial reduction from the 51 percent level of 1994, and the lowest for several years, with the utilization of the Company's large diameter spiral mills dropping to 23 percent from 43 percent in 1994. Utilization of the smaller diameter electric resistant weld mills was 41 percent compared to 57 percent.

Pipe mill capacity utilization at IPSCO's U.S. locations was also lower at 31 percent compared to 39 percent a year earlier.

Gains in operational efficiencies and resultant cost improvements were experienced in a number of areas of the pipemaking system. At the Camanche, Iowa operation a major reduction in the conversion cost for small sizes of hollow structurals was accomplished. Significant efficiency improvements were achieved at the 24-inch mill in Regina while a new method increased production speeds on 30-inch diameter spiral pipe in Regina by approximately 55 percent. The new accumulator at Red Deer has resulted in lower material losses and higher throughputs. Similarly, a new "cage", a continuous forming mechanism which replaces part of the traditional pipe-forming equipment, that was installed in the pipe mill at Calgary has also produced cost improvements.

Coil Processing Centres

IPSCO operates three processing centres, primarily converting hot rolled coils to cut-to-length sheets and plates, at Regina, Saskatchewan; St. Paul, Minnesota; and Surrey, British Columbia.

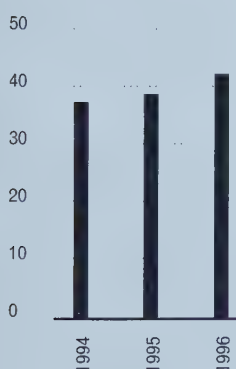
Tonnage throughput increased four percent over 1994, with all the volume growth occurring in St. Paul, Minnesota, where the installation of a leading edge cut-to-length line permitted production of higher strength and wider materials.

Conversion costs per unit at St. Paul increased somewhat over 1994 as the result of equipment start-up difficulties and extra costs associated with the need for off-site storage during the installation period. Nevertheless by year-end productivity had improved over that of the previous cut-to-length line.

At the Surrey facility, operating only since September 1994 when it replaced another operation in North Vancouver, B.C., higher yields and better productivity on the upgraded cut-to-length line meant that conversion costs dropped as the year progressed.

Selling, Research and Administration Expenses

(millions of dollars)

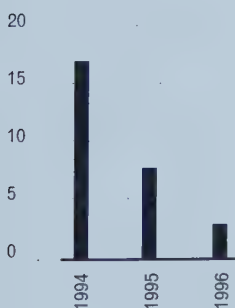


Selling, Research and Administration Expenses

Selling, research and administration expenses increased by 9 percent to \$42.1 million in 1996 after having risen by under 3 percent to \$38.7 million in 1995. The largest portion of the increase in 1996 was due to general inflation in the cost elements within this group of expenditures. Capital taxes, bad debts, legal and audit and research and development expenses were also higher. In addition public relations spending was higher mainly caused by the higher level of corporate philanthropic spending that is driven by the better results. In 1995 the increase was mainly due to general inflation in the cost elements within this group of expenditures.

Interest on Long-Term Debt

(millions of dollars)



Interest on Long-Term Debt

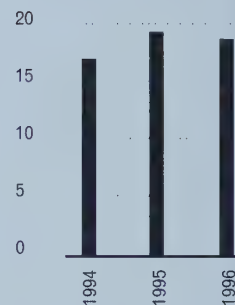
Interest on long-term debt decreased by 73 percent to \$2.0 million in 1996 after having decreased by 55 percent to \$7.5 million from \$16.7 million in 1994. The decreases were principally because a larger amount of interest was capitalized with respect to the United States steel mill in each of those years although it was also partly the result of retiring \$45 million of debentures in 1995.

Amortization of Capital Assets

Amortization of capital assets declined by three percent to \$19.2 million in 1996 after having increased by 21 percent in 1995. The higher levels in 1995 and 1996 were due to accelerated amortization of assets that were shut down in early 1996.

Amortization of Capital Assets

(millions of dollars)

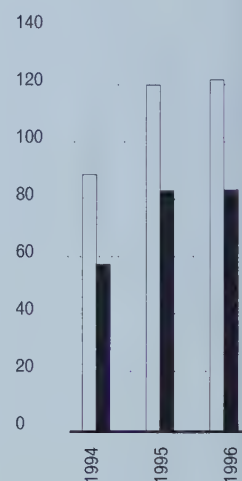


Income Before Income Taxes and Net Income

As a result of the changes described in previous sections, income before income taxes rose by two percent to \$121.8 million in 1996 after having risen by 33 percent to \$118.9 million in 1995 from \$89.4 million in 1994. Consequently, net income rose by two percent to \$83.3 million in 1996 after having risen by 41 percent to \$81.7 million in 1995 from \$57.7 million in 1994.

Income Before Income Taxes and Net Income

(millions of dollars)

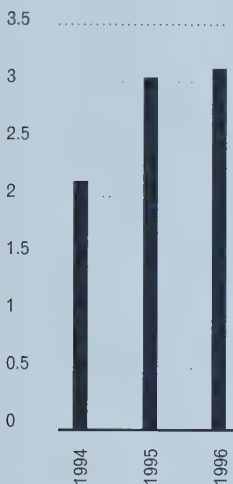


□ Income Before Income Taxes

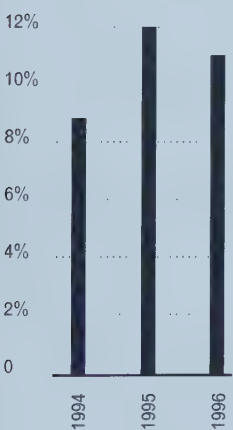
■ Net Income

Earnings Per Common Share

(dollars)

**Earnings Per Common Share**

Earnings per common share rose 2 percent to \$3.07 in 1996 after having risen 41 percent to \$3.01 in 1996 from \$2.13 in 1994.

Return on Common Shareholders' Equity**Return on Common Shareholders' Equity**

The return on common shareholders' equity declined to 11 percent in 1996 after having risen to 12 percent in 1995 from 9 percent in 1994.

These rates of return should be considered in the context that assets representing 70 percent of equity in 1996, 56 percent of equity in 1995 and 31 percent of equity in 1994 represented construction work in progress on the United States steel mill that were therefore unable to earn any significant return.

Quarterly Results

Results by quarter for 1996, 1995 and 1994 were as follows:

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	1996	1995	1994
Tons Shipped	(thousands of tons)		
1st Quarter	243.7	297.5	329.9
2nd Quarter	276.9	251.0	341.3
3rd Quarter	319.0	221.8	340.9
4th Quarter	<u>320.5</u>	<u>240.8</u>	<u>338.2</u>
Total	<u>1,160.1</u>	<u>1,011.1</u>	<u>1,350.3</u>

Sales	(millions of dollars)		
1st Quarter	\$ 168.1	\$ 198.4	\$ 193.1
2nd Quarter	183.8	182.0	206.8
3rd Quarter	220.2	158.9	220.9
4th Quarter	<u>232.8</u>	<u>167.0</u>	<u>227.1</u>
Total	<u>\$ 804.9</u>	<u>\$ 706.3</u>	<u>\$ 847.9</u>

Net Income	(millions of dollars)		
1st Quarter	\$ 16.7	\$ 23.1	\$ 13.0
2nd Quarter	16.8	21.7	9.4
3rd Quarter	23.2	17.9	14.4
4th Quarter	<u>26.6</u>	<u>19.0</u>	<u>20.9</u>
Total	<u>\$ 83.3</u>	<u>\$ 81.7</u>	<u>\$ 57.7</u>

Earnings Per Share	(dollars)		
1st Quarter	\$.62	\$.85	\$.48
2nd Quarter	.62	.81	.35
3rd Quarter	.85	.66	.53
4th Quarter	<u>.98</u>	<u>.69</u>	<u>.77</u>
Total	<u>\$ 3.07</u>	<u>\$ 3.01</u>	<u>\$ 2.13</u>

Analysis of IPSCO's Capital Structure

The annualized rate of return on common shareholders' equity was nine percent in the first quarter, nine percent in the second quarter, 12 percent in the third quarter and 14 percent in the fourth quarter. For the year, the return on equity declined to 11 percent from 12 percent in 1995. This level of return is substantially higher than the inflation rate which was just over 1.5 percent in Canada and just under three percent in the United States.

The return on equity in 1996, 1995, and 1994 is a weighted average of differing returns by category of investment that deserves more elaboration. During the latter part of 1993 and the early part of 1994, two equity issues and a U.S. \$200 million private placement of debt were undertaken to provide the funding for the new steel mill in the United States. The proceeds from these financings were invested in interest-bearing securities until the funds were needed to finance the construction of the mill and the working capital that would be required for it. As a result, during 1996, 1995, and 1994 two broad categories of investment existed; the first being the investment in the operating business, and the second being the investment for the United States mill. The second category is made up of two components:

- the direct investment in the United States mill, which, because the mill is not yet operating, is not generating any return; and,
- the money that is destined to complete the new mill and fund its working capital requirements which is being held in long and short-term interest-bearing securities, the after-tax returns from which are much lower than the returns being generated from the operating business.

The low after-tax return from this second category of investment has had the effect of averaging down the higher return that is being achieved in IPSCO's operating business in 1996, 1995, and 1994. The following analysis illustrates this point.

The average total capitalization of IPSCO and the after-tax return on total capitalization for IPSCO in 1996, 1995 and 1994 is as follows:

	Average Total Capitalization		
	1996	1995	1994
	(millions of dollars)		
Debt	\$ 336	\$ 314	\$ 219
Equity	<u>755</u>	<u>691</u>	<u>631</u>
Total	<u>\$ 1,091</u>	<u>\$ 1,005</u>	<u>\$ 850</u>

	After Tax Return/ Cost on Total Capitalization		
	1996	1995	1994
	(millions of dollars)		
Debt	\$ 1.2	\$ 4.6	\$ 10.4
Equity	<u>83.3</u>	<u>81.7</u>	<u>57.7</u>
Total	<u>\$ 84.5</u>	<u>\$ 86.3</u>	<u>\$ 68.1</u>

	Approximate Percent Return/Cost		
	1996	1995	1994
Debt	1%	2%	5%
Equity	<u>11</u>	<u>12</u>	<u>9</u>
Total	<u>8%</u>	<u>9%</u>	<u>8%</u>

By major investment category this breaks down as follows:

	Average Investment By Major Category		
	1996	1995	1994
	(millions of dollars)		
Total Investment	\$ 1,091	\$ 1,005	\$ 850
United States Mill	<u>628</u>	<u>624</u>	<u>463</u>
Operating Business	<u>\$ 463</u>	<u>\$ 381</u>	<u>\$ 387</u>

	Approximate After Tax Return By Major Category		
	1996	1995	1994
	(millions of dollars)		
Total Investment	\$ 84.5	\$ 86.3	\$ 68.1
United States Mill	<u>16.0</u>	<u>21.9</u>	<u>14.7</u>
Operating Business	<u>\$ 68.5</u>	<u>\$ 64.4</u>	<u>\$ 53.4</u>

	Approximate Percent Return		
	1996	1995	1994
Total Investment	8%	9%	8%
United States Mill	<u>3</u>	<u>3</u>	<u>3</u>
Operating Business	<u>15%</u>	<u>17%</u>	<u>14%</u>

Therefore, based on this analysis, the return on investment employed in IPSCO's operating business decreased to approximately 15 percent in 1996 after having risen to 17 percent in 1995 from 14 percent in 1994.

Significant Differences Between Canadian and United States Generally Accepted Accounting Principles (GAAP)

IPSCO, a Canadian company, uses Canadian dollars as the basis of measurement and follows Canadian GAAP in reporting its financial results. The differences in the reported results that would have resulted from using United States as opposed to Canadian GAAP are summarized in note 18 to the 1996 financial statements.

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Liquidity and Capital Resources

Changes in Cash Position

As regards cash inflows, during 1996 working capital provided by operations was \$95.3 million and non-cash operating working capital was increased by \$41.1 million which resulted in a net of \$54.2 million of cash being generated from operating activities. Higher sales levels plus the building of raw material and supply inventories for the startup of the new steel mill in the United States caused the increase in non-cash operating working capital. On 10 October 1996 IPSCO raised \$100 million in cash by selling that amount of Canadian dollar denominated 10-year unsecured debentures due 1 December 2006 bearing semi-annual interest at an annual rate of 7.8 percent. In addition, \$8.6 million was raised from the sale of an interest in surplus land of Western Steel, \$.1 million was raised from shares issued pursuant to the share option plan and the cash effect of notionally translating foreign subsidiaries to Canadian dollars was \$.2 million.

As regards cash outflows, dividends of \$13.0 million were paid out, \$1.5 million of long-term debt was repaid, \$1.4 million of debt issue expense was incurred, and \$118.2 million was expended on capital assets of which \$60.2 million was funded from maturing long-term securities.

As a result, during 1996 IPSCO's cash position increased by \$89.2 million to \$226.7 million at 31 December.

Long-term securities were reduced by \$60.2 million during the year to \$92.5 million at 31 December. The long-term securities on hand at 31 December are denominated in U.S. dollars and will be used to fund capital expenditures required for the Iowa steel mill.

Capital expenditures totalled \$118.2 million which, once again, were dominated by expenditures on the company's new mini-mill in Montpelier, Iowa, which amounted to \$101.3 million.

Spending on improvements to IPSCO's existing facilities amounted to \$16.9 million, barely changed from \$17.7 million for the previous year. Improvement programs in the heavily loaded Canadian operations were impeded by a lack of access to equipment which was being pressed to supply customers, as well as delays by the supplying contractors. By year end the eccentric bottom tapping system on Regina's largest electric furnace was finally installed and working satisfactorily after over a year's delay. Associated programs in the steelworks design to improve internal ambient air conditions were held up by the late installation of the furnace modifications as well as contractor delays.

Expenditures on a major upgrading and expansion of the Camanche, Iowa, pipeworks commenced, aimed at bringing the total annual capacity of IPSCO's American pipe operations to 300,000 tons.

With the advent of new sources of 96-inch wide hot rolled coil, cut-to-length lines capable of handling such material will become strategic resources for those coil processors who possess them. IPSCO was able to procure such a used 96-inch line in good condition which, after refurbishment, will be installed in a new stand-alone coil processing facility to serve the Canadian prairie market, replacing an obsolete operation in Regina.

United States Mill

In September 1993 the Company announced that it would be proceeding with the development of a new mini-mill in the United States. A delay in the construction of this mill at Montpelier, Iowa, was reported in the 1995 report. At that time it was expected that commissioning would be delayed until the third quarter of 1996. It was further reported that detailed discussions were still in progress with the general contractor with respect to a new schedule.

Those discussions resulted in the resolution of several major matters including a revised date after which a contract price reduction clause would come into effect, a change in the contract price related to the delay dispute, the settlement of some extra work items not related to the delay, and the withdrawal of all other major claims by the contractor. An agreement was also reached with the contractor which also included an incentive formula based on the mill achieving capacity higher than the original contract tonnage of 1,000,000 tons per annum, with payments to be made over a maximum ten year period based on the mill's actual performance.

In July 1996, based on the resolution of matters in dispute with the contractor, IPSCO reforecast the project cost at U.S. \$400 million, up seven percent from the \$375 million previously estimated.

Unfortunately since then the general contractor has informed IPSCO of further schedule slippages. The estimated completion date is now foreseen to be the second quarter of 1997. Unlike many other such projects, IPSCO contracted the Montpelier mini-mill on a “turn-key” basis. Under a fixed price arrangement the contractor was committed to delivering an operating plant to IPSCO at a fixed time. A price reduction clause covering the first 20 weeks of delay resulted in a lower price to IPSCO from the contractor in an amount which, during the period, offset the cost of higher interest payments, idle production workers, and other time-related expenditures by IPSCO. Discussions with the contractor relating to IPSCO’s recovery of damages due to the further delays have yet to be completed. Capital spending, on an accrued basis for the new mill totalled U.S. \$80.1 million during the year, with 91 percent of the total U.S. \$400 million estimate having been spent by year end. Major expenditures for the mill during 1997 include capitalized interest and startup costs, part of the \$400 million estimate.

Capital Structure

IPSCO strives to maintain a strong balance sheet and a flexible capital structure aimed at achieving consistent shareholder returns from sustained growth.

The Company believes that the principal indicators of its credit worthiness are its debt to total capitalization percentage, its level of interest coverage, and the degree to which covenants in its existing lending agreements may affect its future ability to access debt markets.

Covenants with respect to IPSCO’s existing long-term debt require the Company to maintain, at all times, a minimum book value of shareholders’ equity of \$350 million and a minimum current asset to current liability ratio of one to one. With respect to these covenants, the Company currently exceeds the required minimum by over 100 percent in the case of shareholders’ equity and by approximately 200 percent in the case of the ratio of current assets to current liabilities.

To issue new long-term debt, the percentage that the Company’s long-term debt is to the sum of total long-term debt plus shareholders’ equity (Total Capitalization) cannot exceed 45 immediately after the new debt has been issued. The Company’s long-term debt to Total Capitalization percentage at the end of 1996 increased to 33 compared to 28 at the end of 1995. This means that at the end of 1996 the Company could have incurred an additional \$250 million in long-term debt and still have been able to meet this requirement.

Even though there are no interest coverage tests relating to IPSCO’s long-term debt, the number of times that the Company’s earnings before interest and taxes can cover its interest

on long-term debt (Interest Coverage) is an important indication of its ability to issue additional long-term debt.

In this regard interest incurred on IPSCO's long-term debt in 1996 decreased to \$23.0 million from \$25.4 million in 1995 mainly because the average level of debt was lower in 1996 even though the 1996 year end level of debt was higher than 1995. However, interest charged to earnings decreased to \$2.0 million in 1996 from \$7.5 million in 1995 because more interest was capitalized on the United States mill in 1996 and the repayment of the \$45 million of debentures in the fourth quarter of 1995. Consequently, IPSCO's interest coverage increased to 5.4 times in 1996, from 5.0 times in 1995 on an "interest incurred" basis; whereas, it improved substantially to 61.7 times, from 16.9 times, on an "interest charged to earnings" basis.

Liquidity

In the Company's view the principal indicators of IPSCO's liquidity are its cash position, the amount remaining available to be drawn on its bank line of credit and the ratio of its current assets to its current liabilities.

The bank line was favourably renegotiated with the existing consortium of five Canadian, American, and European banks early in 1997. The line was increased to Canadian \$250 million with 70 percent of the line committed to December 2001. The remaining 30 percent is subject to annual renewal. Lending rates were reduced and certain covenants were either reduced or eliminated entirely. The Company's line of credit can be drawn, at prime rates or less, in either Canadian or United States funds, subject to maintaining the same current asset to current liability ratio and long-term debt to total capitalization percentages that are required to raise further long-term debt. At 31 December 1996 no amount was drawn on this line. The Company is currently in compliance with the covenants necessary to draw on this facility.

At the end of 1996 IPSCO's cash position increased to \$226.7 million and the ratio of its current assets to its current liabilities improved to 3.0 to 1. Comparable numbers for 1995 were \$137.5 million and 2.5 to 1.

At the beginning of 1997 the estimated cost to complete capital programs in progress is \$117.2 million of which \$60.7 million is committed. In addition the working capital requirements for the United States mill, which could be as much as U.S. \$45 million, will have to be funded and \$1.5 million of IPSCO's long-term debt will have to be repaid in 1997.

Assuming continuing profitability IPSCO can finance these expenditures and its current level of dividends from its cash position, maturing long-term investments, and cash generated from operating activities.

From time to time IPSCO makes use of interest rate swaps and foreign currency contracts to manage the Company's interest rate and foreign exchange risks. At the end of 1996 the Company did not have any such contracts outstanding.

Inflation

General inflation in the Canadian economy in 1996 was just over one and one-half percent, lower than the level of under two percent that was experienced in 1995 but somewhat higher than the level of under one percent that was experienced in 1994. In the United States inflation was just under three percent, virtually no change from the experience in 1995 and 1994.

Business Risks and Uncertainties

Risks and Uncertainties

In the Company's opinion, weakness in the Canadian or United States economies could result in a lessening of demand for steel products. In addition, North American interest rates, the level of drilling in the Canadian energy industry, exchange rates, and the level of demand outside of North America for steel products are some of the other factors that can be expected to impact upon the demand for the Company's products. The level of drilling in the energy industry tends to be driven by the market price for oil and natural gas.

Steel usage in the United States is measured as "apparent supply" as it includes both actual usage and inventory accumulations by customers. In 1996 apparent supply fell just short of 125 million tons, up almost nine percent from 1995, the highest level since the early 1970s. The demand underlying this increase in apparent supply has been fuelled by increased domestic shipments (which despite a spate of equipment breakdowns were higher by about three percent) and a resurgence of imports which amounted to 29 million tons, 19 percent higher than in 1995. More disturbing is the trend which saw imports in the fourth quarter up 63 percent from the same period a year ago.

Canadian demand was strong as well, although less so than that of the U.S., and will probably end the year at about 14.3 million tons or five percent ahead of 1995. Imports are expected to have been about 28 percent of this total.

On the supply side, the level of steel imports and the additional production from North American steel facilities may well be important factors over the next several years. The high level of imports that are continuing to be sold in the United States and Canada are not expected to be willingly withdrawn when the steel cycle hits a downturn. This could cause prices to drop. In addition to the Company's new United States mill that is expected to commence its commissioning in the second quarter of 1997, there are a number of competitors that have announced, are proceeding with, or have brought into production, facility modernizations or expansions in the United States and Canada including new "mini-mill" facilities.

In terms of general price patterns the year was almost a mirror image of 1995 which saw early price strength erode quarter by quarter. In contrast, prices started firming early in 1996 and, except for a few cases, were highest by the year-end. An exception was in hot rolled coil and discrete plate where, for certain grades and sizes, intense competition from offshore suppliers severely restrained some prices. This has prompted the initiation of trade suits in both Canada and the United States by other steel companies against plate imports and there are rumours of impending cases involving hot rolled coil.

IPSCO's new U.S. mini-mill will provide IPSCO with an enhanced opportunity to provide steel products to its United States customers. With the start-up of the mill IPSCO will be faced with the usual issues and risks associated with the startup of a major greenfield steel plant as the Company attempts to demonstrate that the plant can be operated in a sustained and cost effective basis with the equipment, as installed. In addition, when the mill commissioning phase is completed and the production phase begins, satisfactory market penetration will have to be accomplished. IPSCO has not previously operated a steel manufacturing plant in the United States, although it has for several years operated steel fabrication and processing facilities. Where considered appropriate, IPSCO has entered into long-term contractual arrangements with suppliers of essential raw materials for the new mill. Although no assurances can be given, based upon the latest schedule delivered by the contractor, IPSCO anticipates that the startup phase will be concluded sometime during the second half of 1997.

Environmental laws and regulations are rapidly changing, and the enforcement practices of regulatory agencies are becoming more stringent. The Company monitors and evaluates the state of its environmental compliance on an ongoing basis and continues to discuss

environmental issues as they arise with regulatory authorities, as well as to undertake remediation activities where they are required. During 1996 capital spending on programs aimed at environmental controls and avoiding potential environmental hazards amounted to \$5.4 million at existing IPSCO operations in both Canada and the United States. In addition, some \$6.1 million of the spending on the new U.S. mill was for environmental equipment and controls. Substantial costs are also incurred annually in the operation of environmental programs.

Outlook

At the date hereof the American economy continues on its tightrope of moderate growth with low inflation. Just when rumours of impending interest rate hikes aimed at combatting inflation become persistent new data are published which show a slight slackening in economic growth or a lessening in inflation. This is invariably followed by a short period of pessimism about the outlook for growth only to be quickly pushed out of sight by another mild bout of fear that inflation is on the rise.

Steel, as a major component of a broad cross-section of capital and consumer goods, generally sees its consumption levels change with changes in economic growth. Because of overstocking by distributors and steel-using manufacturers in times of potential steel shortages, when a downturn does occur it is often sharper for steel company orders than in actual steel consumption. In the past this has meant that a minor downturn can mean a major disruption to steel producers. But in this era of enhanced inventory control systems and "just-in-time" deliveries many industry analysts believe the danger of massive overstocking is less than in earlier years.

Overarching the impact of changes in economic growth, a major determinant of sales by North American domestic steel producers is the level of imports from offshore. The significant increase and upward trend in imports in 1996 has been discussed under Business Risks and Uncertainties.

IPSCO's current view is that general steel demand in both the United States and Canada, the latter's economy being highly influenced by that of the former, should remain at about current levels, absent any major shift downwards in economic activity but with a major uncertainty being the course of disruptive imports.

Because roughly one third of IPSCO's tonnage shipments are in the form of tubular products destined for oil and gas exploration, development, and transmission, the company's profitability for 1997 will also be driven by the state of that market, particularly in the Canadian west. At the date hereof demand in Canada for oil country tubular goods continues at a record clip and IPSCO has in hand a modest order for large diameter gas transmission pipe for the second quarter.

Barring a substantial drop in international energy prices there is no reason to expect that drilling activity should not remain strong, with the exception of the usual "spring break-up" in the second quarter when thawing conditions disrupt drilling rig movements. In addition, several long distance gas and oil pipeline projects are in the planning and/or regulatory approval stage. Some of these will require a combination of high strength steels and thicknesses for which IPSCO's large diameter facilities are not equipped. However the recent negotiation of a long-term labour contract expiring in mid-2002 has permitted the company to proceed with plans to upgrade both its Regina steel and pipemaking facilities, at a capital cost of \$25 million, in time to produce material to these new specifications. Project business of this sort is based on a tendering process so what share, if any, IPSCO will eventually be awarded is not predictable.

The delay in the construction of IPSCO's new Montpelier, Iowa steelworks, as described earlier, means that no significant positive or negative impact to the company's bottom line will be registered in 1997 by new sales emanating from that operation. While production is expected to start in the second quarter IPSCO's accounting practice means that startup and commissioning costs will be capitalized as part of the project cost until a break-even operating level is achieved, 50 percent of capacity production is reached, or six months has passed, whichever is the shorter time frame. Thus, while IPSCO expects to be selling output from the new mill in 1997, profits or losses resulting from such sales will probably not be recorded until late in the year.

In summary, barring a major shift in the economy or in energy prices, and provided steel imports from offshore do not cause further problems for domestic producers, IPSCO should enjoy continuing profitability in 1997.

While 1998 may bring further challenges on the economic front the new steelworks should have achieved reasonable production levels by then with a positive impact on after-tax profits.

1996

ipSCO inc.

Financial Statements

Management's Responsibility for Financial Statements**26**

The accompanying consolidated financial statements of IPSCO Inc., and all information in this report, were prepared by management, which is responsible for its integrity and objectivity.

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and necessarily include some estimates based upon management's judgments. The significant accounting policies, which management believes appropriate for the company, are described in Note 2 to the financial statements. Financial and operating data presented elsewhere in the annual report are consistent with the information contained in the financial statements.

The integrity and reliability of IPSCO's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and an appropriate division of responsibilities. Internal accounting controls are continually monitored by an internal audit staff through ongoing reviews and comprehensive audit programs. IPSCO regularly communicates throughout the organization the requirement for employees to maintain high ethical standards in their conduct of the company's affairs.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility principally through the Audit Committee of the Board. The Board of Directors annually appoints this Audit Committee which is comprised of directors who are neither employees of IPSCO nor of companies affiliated with the company. This committee meets regularly with management, the head of the internal audit department, and the shareholders' auditors to review significant accounting, reporting and internal control matters. Both the internal and shareholders' auditors have unrestricted access to the Audit Committee. Following its review of the financial statements and annual report and discussions with the shareholders' auditors, the Audit Committee reports to the Board of Directors prior to the Board's approval of the financial statements and annual report. The Audit Committee recommends the appointment of the company's external auditors, who are appointed by the company's shareholders at its annual meeting.

Ernst & Young, Chartered Accountants, the shareholders' auditors, have performed an independent audit in accordance with generally accepted auditing standards and have attested to the fairness, in all material respects, of the presentation of the financial statements. Their report follows.



Roger Phillips
President and Chief Executive Officer
24 January 1997



Edwin Tiefenbach
Vice President and Chief Financial Officer

To the Shareholders of IPSCO Inc.

We have audited the consolidated statements of financial position of IPSCO Inc. as at 31 December 1996 and 1995 and the consolidated statements of income and retained earnings, and changes in cash position for each of the years in the three year period ended 31 December 1996. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at 31 December 1996 and 1995 and the results of its operations and the changes in its financial position for each of the years in the three year period ended 31 December 1996 in accordance with accounting principles generally accepted in Canada.

Ernst + Young

Regina, Canada

24 January 1997

Chartered Accountants

Financial Statements

IPSCO Inc. Consolidated Statements of Financial Position

As at 31 December

(thousands of Canadian dollars)

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	Notes	1996	1995
CURRENT ASSETS			
Cash and cash equivalents		\$226,701	\$136,523
Marketable securities	3	—	1,003
Accounts receivable			
Trade less allowances		111,206	75,687
Other		2,797	6,910
Inventories	4	168,119	136,773
Prepaid expenses		1,709	2,281
Income taxes allocated to future years		<u>19,066</u>	<u>14,334</u>
		<u>529,598</u>	<u>373,511</u>
CURRENT LIABILITIES			
Accounts payable and accrued charges	5	140,111	104,685
Accrued payroll and related liabilities		21,830	17,657
Income and other taxes payable		6,147	17,372
Current portion of long-term debt		1,504	1,500
Other current liabilities		<u>7,903</u>	<u>6,840</u>
		<u>177,495</u>	<u>148,054</u>
WORKING CAPITAL		<u>352,103</u>	<u>225,457</u>

The accompanying notes are an integral part of the consolidated financial statements.

IPSCO Inc. Consolidated Statements of Financial Position

As at 31 December

(thousands of Canadian dollars)

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	Notes	1996	1995
NON-CURRENT ASSETS			
Long-term securities	3	\$ 92,531	\$ 152,454
Capital assets	6	777,198	676,712
Deferred charges		<u>4,584</u>	<u>4,414</u>
		<u>874,313</u>	<u>833,580</u>
TOTAL INVESTMENT		<u>1,226,416</u>	<u>1,059,037</u>
Long-term debt	7	385,597	286,304
Deferred pension credit	8	6,195	6,984
Deferred gain on sale-leaseback		10,510	11,516
Income taxes allocated to future years		<u>32,853</u>	<u>34,727</u>
		<u>435,155</u>	<u>339,531</u>
SHAREHOLDERS' EQUITY		<u>\$ 791,261</u>	<u>\$ 719,506</u>
Derived from			
Capital stock	9	\$ 389,502	\$ 389,378
Retained earnings	10	394,018	323,729
Cumulative translation adjustment	11	<u>7,741</u>	<u>6,399</u>
		<u>\$ 791,261</u>	<u>\$ 719,506</u>
Commitments and contingencies	16&19		

The accompanying notes are an integral part of the consolidated financial statements.

Approved by the Board



John Beddome, Director



Roger Phillips, Director

IPSCO Inc. Consolidated Statements of Income and Retained Earnings

Years ended 31 December

(thousands of Canadian dollars except per share data)

	Notes	1996	1995	1994
Revenue				
Sales		\$ 804,898	\$ 706,306	\$ 847,916
Expenses				
Cost of sales, exclusive of the following items		619,771	521,351	687,676
Selling, research and administration		42,082	38,730	37,712
Interest on long-term debt		2,007	7,490	16,700
Amortization of capital assets		<u>19,225</u>	<u>19,806</u>	<u>16,416</u>
		<u>683,085</u>	<u>587,377</u>	<u>758,504</u>
Income before income taxes		121,813	118,929	89,412
Income taxes	12	<u>38,515</u>	<u>37,274</u>	<u>31,697</u>
NET INCOME		<u>83,298</u>	81,655	57,715
RETAINED EARNINGS AT BEGINNING OF YEAR		<u>323,729</u> 407,027	<u>255,075</u> 336,730	<u>210,354</u> 268,069
Dividends (1996, 1995 and 1994 \$.48 per common share)		<u>13,009</u>	<u>13,001</u>	<u>12,994</u>
RETAINED EARNINGS AT END OF YEAR		<u>\$ 394,018</u>	<u>\$ 323,729</u>	<u>\$ 255,075</u>
EARNINGS PER COMMON SHARE		\$ 3.07	\$ 3.01	\$ 2.13

The accompanying notes are an integral part of the consolidated financial statements.

IPSCO Inc. Consolidated Statements of Changes in Cash Position
Years Ended 31 December
(thousands of Canadian dollars)

	Notes	1996	1995	1994
CASH DERIVED FROM (APPLIED TO)				
Operating activities				
Working capital provided by operations	13	\$ 95,364	\$ 98,082	\$ 75,496
Change in non-cash operating working capital	13	<u>(41,128)</u>	<u>(3,930)</u>	<u>58,615</u>
		<u>54,236</u>	<u>94,152</u>	<u>134,111</u>
Financing activities				
Dividends		(13,009)	(13,001)	(12,994)
Shares issued pursuant to share option plan	9	124	299	368
Issue (repayment) of long-term debt	7	98,495	(45,000)	276,600
Debt issue expenses		<u>(1,447)</u>	<u>—</u>	<u>(2,260)</u>
		<u>84,163</u>	<u>(57,702)</u>	<u>261,714</u>
Investing activities				
Expenditures for capital assets	14	(118,198)	(237,840)	(174,568)
Proceeds from sale of assets		8,564	25,907	—
Reduction (investment) in long-term securities		60,181	233,955	(390,645)
Cash effect of translation of foreign subsidiaries		<u>229</u>	<u>(2,044)</u>	<u>6,045</u>
		<u>(49,224)</u>	<u>19,978</u>	<u>(559,168)</u>
INCREASE (DECREASE) IN CASH		89,175	56,428	(163,343)
CASH POSITION AT BEGINNING OF YEAR				
		<u>137,526</u>	<u>81,098</u>	<u>244,441</u>
CASH POSITION AT END OF YEAR		<u>\$ 226,701</u>	<u>\$ 137,526</u>	<u>\$ 81,098</u>

Cash position comprises cash and cash equivalents plus marketable securities less bank indebtedness.

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements
For the Years Ended 31 December
(thousands of Canadian dollars except per share data)

32**1. Nature of Operations**

IPSCO Inc. is an integrated producer of steel products which is its only line of business and dominant industry segment. The company's products are sold primarily in Canada and the United States.

The company currently employs approximately 1,600 people, of whom approximately 34% are non-unionized personnel and approximately 66% are represented by trade unions.

The company is a party to separate collective bargaining agreements with a term to 31 July 1997 with locals of the United Steelworkers of America (USWA) which represent unionized employees in Regina, Calgary and Edmonton. These employees account for approximately 87% of the company's unionized employees.

Transactions with one significant customer in the year ended 31 December 1996 accounted for 12% of sales. In 1995 and 1994 no customer accounted for more than 10% of sales.

At 31 December 1996 three customers represented 13%, 13%, and 12% of the accounts receivable balance. At 31 December 1995 one customer represented 12% of the accounts receivable balance.

2. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and include certain estimates based on management's judgements. These estimates affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results may differ from those estimates. The accounting policies followed by the company also conform in all material respects with accounting principles generally accepted in the United States, except as described in note 18.

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the company and its subsidiaries. Significant inter-company transactions are eliminated on consolidation.

FOREIGN CURRENCIES

a) Self-sustaining foreign subsidiaries

The company's foreign subsidiaries are accounted for as self-sustaining operations and have been translated into Canadian dollars on the following basis:

- i) Assets and liabilities at the rate of exchange in effect at the end of the year;
- ii) Revenue and expenses at the monthly weighted average exchange rate.

All adjustments arising from foreign currency translation of foreign subsidiaries are included as a separate component of shareholders' equity.

b) Other foreign currency assets and liabilities

Other foreign denominated monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the end of the year. Non-monetary assets and liabilities are translated at the rates prevailing at the transaction dates. Revenue and expense items are translated at the monthly weighted average exchange rate. Differences arising on translation are recorded in determining income for the year.

c) Hedges

Adjustments arising from foreign currency translation of long-term debt which has been designated as a hedge of self-sustaining foreign operations are included as a separate component of shareholders' equity.

MARKETABLE SECURITIES

Marketable securities are securities of the government of Canada and its provinces, banks, and other corporations, with a maturity of longer than three months when purchased. These highly liquid securities either are short-term, with a fixed interest rate, or are floating-rate securities, with rates dependent upon short-term interest rates.

LONG-TERM SECURITIES

Long-term securities are securities of the government of Canada and its provinces, agencies of the government of the United States, banks, and other corporations with maturity dates between January 1997 and March 1997. The maturity dates of these securities are timed to meet payment obligations of the company's new U.S. steel mill facility. As the securities are committed and will be held to maturity, they are carried at amortized cost.

INVENTORIES

Inventories are valued at the lowest of average cost, replacement cost and net realizable value.

INCOME TAXES

Income taxes are accounted for by the deferral method of income tax allocation. Income taxes allocated to future years are due primarily to claiming capital cost allowance for tax purposes in excess of amortization recorded in the accounts. In addition, accounting provisions are recognized which are not deductible for tax purposes.

GOVERNMENT ASSISTANCE AND INVESTMENT TAX CREDITS

Government assistance received and investment tax credits earned on the purchase of capital assets are accounted for under the cost reduction method.

CAPITAL ASSETS

Capital assets are stated at cost. For major projects under construction, the company capitalizes interest based on expenditures incurred to the extent of interest costs on debt specifically raised for the project and any debt outstanding at the time the project commences. Amortization is provided on the straight-line basis at the following annual rates:

Buildings	4%
Machinery and Equipment	4% to 10%

Amortization is provided on all assets acquired as they come into production.

REPAIR AND MAINTENANCE COSTS

Repair and maintenance costs are expensed as incurred except for the estimated cost of major overhauls and repairs which are accrued over the period between the major expenditures.

DEFERRED CHARGES

Financing costs relating to long-term debt are deferred and amortized over the term of the related debt and included in interest expense for the year.

PENSION EXPENSE AND DEFERRED PENSION CREDIT

The cost of pension benefits earned by the employees covered by defined benefit plans is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, terminations, and retirement ages of plan members. Adjustments for plan amendments, changes in assumptions and experience gains and losses are charged to operations over the expected average remaining service life of the employee group which is approximately 13 years. The costs of pension benefits for defined contribution plans are charged to operations as contributions become due.

POST RETIREMENT BENEFITS

The company provides certain benefits to eligible retirees. The cost of providing these benefits is charged to operations as incurred.

DEFERRED GAIN ON SALE-LEASEBACK

The gain realized on the sale and leaseback of certain capital assets has been deferred and is being amortized to income on a straight-line basis over the term of the lease.

EARNINGS PER COMMON SHARE

Earnings per common share are based on the weighted average number of shares outstanding during the year.

Fully diluted earnings per common share, which assume the exercise of options described in note 9, do not differ significantly from the reported basic earnings per common share.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

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Cash and cash equivalents

The carrying value of cash and cash equivalents approximates its fair value.

Marketable securities

The fair value of the company's marketable securities has been estimated based on current quoted market prices.

Long-term securities

The fair value of the company's long-term securities has been estimated based on current quoted market prices.

Long-term debt

The fair value of the company's long-term debt has been estimated based on current market prices. Where no market value is available, an estimate based on current rates for similar instruments with similar maturities has been used to approximate fair value.

3. Securities

a) Marketable Securities

The marketable securities outstanding at 31 December 1995 had a fair value of \$1,008.

b) Long-Term Securities

At 31 December, the following is an analysis of long-term securities:

	Carrying Value	Gross Gains	Unrealized Losses	Fair Value
1996				
Commercial paper	\$ 32,660	\$ -	\$ 14	\$ 32,646
Term deposits	<u>59,871</u>	<u>-</u>	<u>-</u>	<u>59,871</u>
	<u>\$ 92,531</u>	<u>\$ -</u>	<u>\$ 14</u>	<u>\$ 92,517</u>
1995				
Corporate bonds	\$ 80,392	\$ 67	\$ 215	\$ 80,244
Commercial paper	39,658	39	98	39,599
Term deposits	<u>32,404</u>	<u>-</u>	<u>-</u>	<u>32,404</u>
	<u>\$ 152,454</u>	<u>\$ 106</u>	<u>\$ 313</u>	<u>\$ 152,247</u>

The long-term securities outstanding at 31 December 1996 are all less than one year to maturity and yield an effective interest rate of 5.4% to 5.5%. (1995 - 4.1% to 9.7%)

4. Inventories

	1996	1995
Finished goods	\$ 57,424	\$ 58,254
Work-in-process	47,203	34,336
Raw materials	31,605	18,130
Supplies	<u>31,887</u>	<u>26,053</u>
	<u>\$ 168,119</u>	<u>\$ 136,773</u>

5. Operating Reserves

Included in accounts payable and accrued charges is an accrual to cover the costs of major overhauls and repairs. Timing of these expenditures is dictated by future events and market conditions. At 31 December 1996 and 1995, the amounts accrued are \$14,737 and \$15,132 respectively.

6. Capital Assets

	1996			1995		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land	\$ 6,649	\$ —	\$ 6,649	\$ 6,868	\$ —	\$ 6,868
Buildings	63,727	35,026	28,701	66,681	35,142	31,539
Machinery and equipment	353,912	175,829	178,083	348,234	164,332	183,902
Construction in progress	<u>537,036</u>	<u>—</u>	<u>537,036</u>	<u>418,621</u>	<u>—</u>	<u>418,621</u>
	961,324	210,855	750,469	840,404	199,474	640,930
Assets held for sale or redeployment	<u>44,700</u>	<u>17,971</u>	<u>26,729</u>	<u>50,572</u>	<u>14,790</u>	<u>35,782</u>
	<u>\$ 1,006,024</u>	<u>\$ 228,826</u>	<u>\$ 777,198</u>	<u>\$ 890,976</u>	<u>\$ 214,264</u>	<u>\$ 676,712</u>

Certain capital assets, which are not employed in production, have been segregated pending a decision on ultimate disposition and are carried at an amount not exceeding management's best estimate of net realizable value.

During the year, \$20,976 (1995 - \$17,894, 1994 - \$3,579) of interest costs were capitalized.

In 1995, the company received government assistance of \$27,342 relating to the construction of its new U.S. steel mill facility.

7. Debt

		Carrying Value		Fair Value	
		1996	1995	1996	1995
a) Long-term debt					
10.58%	\$11,000 U.S. unsecured note, payable in ten equal annual instalments commencing 01 September 1996	\$ 13,541	\$ 15,004	\$ 15,572	\$ 15,413
6.94%	\$100,000 U.S. unsecured notes, payable in five equal annual instalments commencing 01 April 2000	136,780	136,400	136,178	139,674
7.32%	\$100,000 U.S. unsecured notes, payable in seven equal annual instalments commencing 01 April 2003	136,780	136,400	137,601	142,265
7.80%	Unsecured debentures, maturing and payable 01 December 2006	<u>100,000</u> 387,101	<u>—</u> 287,804	<u>105,900</u> 395,251	<u>—</u> 297,352
Less current portion of long-term debt		<u>(1,504)</u>	<u>(1,500)</u>	<u>(1,730)</u>	<u>(1,541)</u>
		<u>\$ 385,597</u>	<u>\$ 286,304</u>	<u>\$ 393,521</u>	<u>\$ 295,811</u>

b) Operating lines of credit

At 31 December 1996, the company had short-term bank lines of credit aggregating \$200,000 (1995 - \$200,000) of which \$Nil (1995 - \$Nil) had been drawn down. Lines of credit are revolving operating and term facilities that bear interest at either the Canadian prime rate or the U.S. base rate and are not secured by specific assets of the company.

8. Pension Plans

The company provides retirement benefits for substantially all of its employees under several defined benefit and defined contribution plans. The defined benefit plans provide benefits that are based on a combination of years of service and an amount that is either fixed or based on final earnings. The defined contribution plans restrict the company's matching contributions to 5% of each participating employee's annual earnings.

The company's policy with regard to the defined benefit plans is to fund the amount that is required by governing legislation.

Net pension expense attributable to the company's pension plans for 1996, 1995 and 1994 included the following components:

	1996	1995	1994
Defined benefit plans			
Service cost for benefits earned	\$ 4,175	\$ 4,170	\$ 3,679
Interest cost on projected benefit obligations	8,625	7,828	7,404
Return on assets in plans	(7,527)	(6,653)	(7,115)
Net amortization	1,004	938	6
Curtailments and settlements	<u>—</u>	<u>1,518</u>	<u>—</u>
	6,277	7,801	3,974
Defined contribution plans	<u>745</u>	<u>578</u>	<u>406</u>
Net pension expense	<u>\$ 7,022</u>	<u>\$ 8,379</u>	<u>\$ 4,380</u>

The following table sets forth the defined benefit plans' funded status and amount included in the deferred pension credit in the company's statement of financial position at 31 December 1996 and 1995:

	1996	1995
Accumulated benefit obligation		
- vested	\$ (93,516)	\$ (94,694)
- nonvested	(55)	(115)
Effect of future compensation escalation	<u>(8,424)</u>	<u>(9,003)</u>
Projected benefit obligation	(101,995)	(103,812)
Market value of plan assets as at 31 December consisting primarily of investments in Canadian and foreign equities, short-term securities and bonds	<u>100,773</u>	<u>90,046</u>
Deficit	(1,222)	(13,766)
Items not yet recognized in earnings:		
Unrecognized transition gains	(3,301)	(3,748)
Unrecognized experience gains	(13,150)	(1,102)
Unrecognized amendments to the plan	<u>11,478</u>	<u>11,632</u>
Deferred pension credit	<u>\$ (6,195)</u>	<u>\$ (6,984)</u>

The discount rate and long-term rate of return on assets used in determining the pension expense, experience gains/losses and funded status information shown above was 8.5% at 31 December 1996 and 1995. Variances between such estimates and actual experience, which may be material, are amortized over the employees' average remaining service life.

The company bears the risk of experience loss against the above long-term assumptions. The maximum loss is equal to the difference between the fair value of the pension benefit obligation

and the amount of the pension benefit obligation accrued in the financial statements. Should actual experience differ from the experience assumed, future contributions will be adjusted to make up for any variances. Risk is managed by placing plan assets in trust and through the pension plan investment policy which defines the fund's allowable investments.

Since the projected benefit obligation is long-term in nature and there is no market for pension obligations, determination of fair value is not practical within constraints of timeliness and cost.

9. Capital Stock

a) Authorized Capital

The company is authorized to issue unlimited common shares and unlimited first and second preferred shares.

The first and second preferred shares may be issued in series and the directors of the company may fix, before issuance, the rights, privileges, restrictions and conditions attached thereto.

b) Issued Capital

Following is the continuity of common shares outstanding:

	1996		1995		1994	
	Number	Amount	Number	Amount	Number	Amount
Balance at beginning of year	27,098,674	\$ 389,378	27,080,674	\$ 389,079	27,055,174	\$ 388,711
Exercise of share options	<u>5,000</u>	<u>124</u>	<u>18,000</u>	<u>299</u>	<u>25,500</u>	<u>368</u>
Balance at end of year	<u>27,103,674</u>	<u>\$ 389,502</u>	<u>27,098,674</u>	<u>\$ 389,378</u>	<u>27,080,674</u>	<u>\$ 389,079</u>

c) Share Option Plan

The company has a share option plan under which common shares are reserved for directors, officers and employees. These options, which are exercisable within ten years, are to be granted at a price established by the Board of not less than 100% of the last Toronto Stock Exchange board lot trading price prior to the day of the grant. The options outstanding at 31 December 1996, which expire between 1997 and 2006 (weighted average remaining contractual life is eight years) are exercisable in a price range of \$11.25 to \$32.00 per share.

Following is the continuity of granted options outstanding:

	1996		1995	
	Exercisable		Exercisable	
	Number	Amount	Number	Amount
Balance at beginning of year	856,950	\$ 21,510	511,700	\$ 11,435
Options granted	<u>181,500</u>	<u>5,514</u>	<u>363,250</u>	<u>10,374</u>
	1,038,450	27,024	874,950	21,809
Options exercised	(5,000)	(124)	(18,000)	(299)
Options cancelled	<u>(1,500)</u>	<u>(38)</u>	<u>—</u>	<u>—</u>
Balance at end of year	<u>1,031,950</u>	<u>\$ 26,862</u>	<u>856,950</u>	<u>\$ 21,510</u>

Following is the continuity of shares reserved under the plan:

	1996	1995
Balance at beginning of year	29,075	392,325
Options approved	750,000	—
Options granted	(181,500)	(363,250)
Options cancelled	<u>1,500</u>	<u>—</u>
Balance at end of year	<u>599,075</u>	<u>29,075</u>

10. Dividend Restriction

The most restrictive covenant in the company's financing agreements requires consolidated shareholders' equity to be maintained at a minimum of \$500,000 plus 50% of net income earned after 31 March 1994. At 31 December 1996, the minimum shareholders' equity required is \$604,829.

11. Cumulative Translation Adjustment

The cumulative translation adjustment represents the unrealized gain or loss on the company's net investment in self-sustaining foreign operations. Also included is the effect of exchange rate changes on transactions designated as hedges of the net foreign investment.

The change in the cumulative translation adjustment during the year ended 31 December 1996 of \$1,342 (1995 - \$11,729) results primarily from fluctuations of the Canadian dollar against the U.S. dollar.

12. Income Taxes

a) The geographical components of income before income taxes are summarized below:

	1996	1995	1994
Canada	\$ 109,217	\$ 113,195	\$ 80,634
Foreign	<u>12,596</u>	<u>5,734</u>	<u>8,778</u>
	<u>\$ 121,813</u>	<u>\$ 118,929</u>	<u>\$ 89,412</u>

b) The provision for income taxes is summarized as follows:

	1996	1995	1994
Current			
Canada	\$ <u>45,156</u>	\$ <u>42,901</u>	\$ <u>28,229</u>
Deferred			
Canada	(11,135)	(7,773)	2,380
Foreign	<u>4,494</u>	<u>2,146</u>	<u>1,088</u>
	<u>(6,641)</u>	<u>(5,627)</u>	<u>3,468</u>
	<u>\$ 38,515</u>	<u>\$ 37,274</u>	<u>\$ 31,697</u>

- c) Income taxes allocated to future years result from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences and their effect on income taxes are as follows:

	1996	1995	1994
Excess (deficiency) of capital cost allowance over amortization	\$ (250)	\$ 2,289	\$ 3,908
Excess (deficiency) of contributions over pension expense	327	(944)	926
Deferred amounts	(12,213)	(12,975)	(7,591)
Utilization of operating losses	4,518	5,377	4,058
Inventory carrying costs	18	(158)	570
Other	<u>959</u>	<u>784</u>	<u>1,597</u>
	<u>\$ (6,641)</u>	<u>\$ (5,627)</u>	<u>\$ 3,468</u>

- d) Income tax expense differs from the amount computed by applying the corporate income tax rates (Canadian Federal and Provincial) to income before income taxes. The reason for this difference is as follows:

	1996	1995	1994
Corporate income tax rate	<u>45.1%</u>	<u>45.1%</u>	<u>43.8%</u>
Provision for income taxes based on corporate income tax rate	\$ 54,962	\$ 53,649	\$ 37,845
Increase (decrease) in taxes resulting from			
Manufacturing and processing profit	(5,811)	(7,055)	(5,555)
Large corporation tax	(889)	(87)	174
Income taxed at different rates in foreign jurisdictions	(10,665)	(9,595)	(1,519)
Other	<u>918</u>	<u>362</u>	<u>752</u>
	<u>\$ 38,515</u>	<u>\$ 37,274</u>	<u>\$ 31,697</u>

- e) At 31 December 1996, foreign subsidiaries of the company had accumulated net operating losses carried forward of \$3,221 for which the future tax benefits have been recorded. The related tax benefits can be carried forward and, subject to certain limitations, offset against income tax expense arising in future periods up to the year 2006.

13. Cash Derived from (Applied to) Operating Activities

	1996	1995	1994
Working capital provided by operations			
Net income	\$ 83,298	\$ 81,655	\$ 57,715
Gain on sale of assets	—	(488)	—
Amortization of capital assets	19,225	19,806	16,416
Amortization of deferred charges	1,277	1,314	1,263
Deferred pension expense	(789)	2,428	(2,360)
Amortization of deferred gain on sale lease-back	(1,006)	(1,006)	(1,006)
Income taxes allocated to future years	<u>(6,641)</u>	<u>(5,627)</u>	<u>3,468</u>
	<u>\$ 95,364</u>	<u>\$ 98,082</u>	<u>\$ 75,496</u>
Change in non-cash operating working capital			
Trade receivables	\$ (35,519)	\$ 19,152	\$ 5,798
Other receivables	4,113	1,380	(869)
Inventories	(31,346)	3,663	11,972
Prepaid expenses	572	(104)	(737)
Accounts payable and accrued charges	27,041	(27,050)	14,452
Accrued payroll and related liabilities	4,173	(636)	6,029
Income and other taxes payable	(11,225)	670	16,702
Other current liabilities	<u>1,063</u>	<u>(1,005)</u>	<u>5,268</u>
	<u>\$ (41,128)</u>	<u>\$ (3,930)</u>	<u>\$ 58,615</u>

14. Expenditures for Capital Assets

	1996	1995	1994
Additions to capital assets	\$ 126,583	\$ 219,797	\$ 226,231
Decrease (increase) in accounts payable and accrued charges for capital expenditures	<u>(8,385)</u>	<u>18,043</u>	<u>(51,663)</u>
	<u>\$ 118,198</u>	<u>\$ 237,840</u>	<u>\$ 174,568</u>

15. Segmented Information

Financial information on the company's geographic segments follows. Operating income is defined as sales revenue less cost of sales, selling, research and administration expenses and amortization of capital assets.

	1996	1995	1994
Sales - External			
Canada	\$ 648,831	\$ 569,793	\$ 707,648
USA	<u>156,067</u>	<u>136,513</u>	<u>140,268</u>
	<u>\$ 804,898</u>	<u>\$ 706,306</u>	<u>\$ 847,916</u>
Operating income			
Canada	\$ 120,447	\$ 111,334	\$ 96,396
USA	10,902	10,545	1,165
Corporate	<u>(7,529)</u>	<u>4,540</u>	<u>8,551</u>
	<u>\$ 123,820</u>	<u>\$ 126,419</u>	<u>\$ 106,112</u>
Total investment			
Canada	\$ 317,593	\$ 308,554	
USA	589,591	460,503	
Corporate	<u>319,232</u>	<u>289,980</u>	
	<u>\$ 1,226,416</u>	<u>\$ 1,059,037</u>	

Canadian operations include export sales of domestic product of \$54,915 (1995 - \$45,967, 1994 - \$37,732).

Sales from the Canadian segment directly to USA customers and to the USA segment at market prices amounted to \$94,660 (1995 - \$116,163, 1994 - \$51,980).

Corporate operating income includes costs which are not specifically allocable to either segment.

16. Commitments

- a) The company leases certain of its steel division production equipment under an operating lease. The lease is for the period to 2007 with annual net rentals based on production. The company has options, but not an obligation, to purchase the equipment at the end of each five-year interval of the lease term. The aggregate lease payments based on stipulated minimum and maximum production levels are included below. The company and its subsidiaries also have lease commitments on property for the period to 1999.

The payments required by these leases are as follows:

	Minimum	Maximum
1997	\$ 9,009	\$ 12,683
1998	6,766	9,348
1999	5,564	8,146
2000	4,496	7,078
2001	<u>4,496</u>	<u>7,078</u>
	30,331	44,333
2002 - 2007	<u>48,957</u>	<u>30,994</u>
	<u>\$ 79,288</u>	<u>\$ 75,327</u>

Rental expenses incurred under operating leases during 1996, 1995 and 1994 were \$13,947, \$12,612 and \$10,486 respectively.

- b) At 31 December 1996, the estimated cost to complete capital programs in progress is \$117,234, of which \$60,732 is committed. This includes the estimated cost to construct and commission the company's new U.S. steel mill facility.

17. Supplemental Information

	1996	1995	1994
Allowance for doubtful accounts	<u>\$ 1,602</u>	<u>\$ 1,536</u>	<u>\$ 1,969</u>
Doubtful accounts charged to expense	<u>\$ 584</u>	<u>\$ —</u>	<u>\$ 371</u>
Interest income	<u>\$ 13,985</u>	<u>\$ 22,358</u>	<u>\$ 22,396</u>
Other interest expense	<u>\$ 150</u>	<u>\$ 169</u>	<u>\$ 1,893</u>
Miscellaneous income	<u>\$ 2,121</u>	<u>\$ 3,664</u>	<u>\$ 1,691</u>
Net foreign exchange gain (loss)	<u>\$ 93</u>	<u>\$ (406)</u>	<u>\$ 4,683</u>
Interest paid	<u>\$ 21,054</u>	<u>\$ 26,483</u>	<u>\$ 16,993</u>
Income tax instalments paid	<u>\$ 61,777</u>	<u>\$ 44,119</u>	<u>\$ 13,277</u>

18. Significant Differences Between Canadian and United States Generally Accepted Accounting Principles (GAAP)

- a) Reconciliation of net income between accounting principles generally accepted in Canada and the United States:

	1996	1995	1994
Net income as reported under			
Canadian GAAP	\$ 83,298	\$ 81,655	\$ 57,715
Adjustments relating to the liability method			
of accounting for income taxes (i)	(1,187)	9,245	(196)
Adjustments relating to the capitalization			
of interest (ii)	<u>1,037</u>	<u>—</u>	<u>—</u>
Net income in accordance			
with U.S. GAAP	<u>\$ 83,148</u>	<u>\$ 90,900</u>	<u>\$ 57,519</u>
Earnings per common share:			
United States - primary and fully diluted	<u>\$ 3.05</u>	<u>\$ 3.35</u>	<u>\$ 2.12</u>
Common stock equivalents			
Balance under Canadian GAAP	27,101,174	27,084,806	27,066,343
Adjustment for share options			
computation	<u>184,454</u>	<u>26,579</u>	<u>45,465</u>
Balance under U.S. GAAP	<u>27,285,628</u>	<u>27,111,385</u>	<u>27,111,808</u>

- i) United States GAAP requires the liability method of accounting for income taxes whereas Canadian GAAP requires the deferral method. At 31 December, deferred tax assets and liabilities are as follows:

	1996		1995	
	Assets	Liabilities	Assets	Liabilities
Current:				
Accounting provisions not deductible				
for tax purposes	\$ 17,649	\$ —	\$ 13,492	\$ —
Capitalized general and administration	1,417	—	1,383	—
Partnership income deferred				
for tax purposes	—	—	—	672
Other	<u>—</u>	<u>—</u>	<u>131</u>	<u>—</u>
Total current	<u>\$ 19,066</u>	<u>\$ —</u>	<u>\$ 15,006</u>	<u>\$ 672</u>
Non-Current:				
Capital cost allowance in excess of				
amortization	\$ —	\$ 46,247	\$ —	\$ 43,058
Net operating loss carry forwards	2,511	—	6,053	—
Pension expense in excess of contribution	2,355	—	2,657	—
Deferred gain on sale-leaseback	1,891	—	2,071	—
Other	<u>13,762</u>	<u>—</u>	<u>6,598</u>	<u>—</u>
Total non-current	<u>\$ 20,519</u>	<u>\$ 46,247</u>	<u>\$ 17,379</u>	<u>\$ 43,058</u>

At 1 January 1994, the valuation allowance was \$6,607. The reductions in the valuation allowance in 1995 and 1994 are \$5,961 and \$646 respectively, and are a result of utilization of net operating loss carried forward and recognition of future benefits of net operating loss carried forward. There was no valuation allowance at 31 December 1996 and 1995.

- ii) United States GAAP requires interest to be capitalized on the expenditures incurred for all major projects under construction to the extent of all interest costs during the year. For Canadian GAAP, the company only capitalizes interest to the extent of debt specifically raised for the project and any debt outstanding at the time the project commences.
- b) Reconciliation of the statement of financial position between accounting principles generally accepted in Canada and the United States:

	1996	1995
i) Capital assets		
Balance under Canadian GAAP	\$ 777,198	\$ 676,712
Adjustments relating to the capitalization of interest	<u>1,774</u>	<u>—</u>
Balance under U.S. GAAP	<u>\$ 778,972</u>	<u>\$ 676,712</u>
ii) Income taxes allocated to future years		
Balance under Canadian GAAP	\$ 13,787	\$ 20,393
Adjustments relating to the capitalization of interest	737	—
Adjustments relating to the liability method		
of accounting for income taxes	<u>(7,862)</u>	<u>(9,049)</u>
Balance under U.S. GAAP	<u>\$ 6,662</u>	<u>\$ 11,344</u>
iii) Common shareholders' equity		
Balance under Canadian GAAP	\$ 791,261	\$ 719,506
Adjustments relating to the capitalization of interest	1,037	—
Adjustments relating to the liability method		
of accounting for income taxes	<u>7,862</u>	<u>9,049</u>
Balance under U.S. GAAP	<u>\$ 800,160</u>	<u>\$ 728,555</u>

- c) U.S. GAAP defines cash position to only include cash and cash equivalents, and requires separate disclosure of the translation effect on cash balances of self sustaining foreign operations. These changes would result in the following restatements of the company's statement of changes in cash position.

	1996	1995	1994
Cash derived from operating activities	<u>\$ 55,753</u>	<u>\$ 98,388</u>	<u>\$ 139,595</u>
Cash derived from (applied to) financing activities	<u>\$ 84,163</u>	<u>\$ (57,702)</u>	<u>\$ 145,661</u>
Cash derived from (applied to) investing activities	<u>\$ (50,224)</u>	<u>\$ 72,752</u>	<u>\$ (333,193)</u>
Effect of exchange rate changes on cash	<u>\$ 486</u>	<u>\$ (6,280)</u>	<u>\$ 561</u>
Cash position at 31 December	<u>\$ 226,701</u>	<u>\$ 136,523</u>	<u>\$ 29,365</u>

- d) Additional disclosure required under U.S. GAAP:
- i) Following U.S. GAAP the accumulated benefit obligation in the company's pension plans would have been approximately \$103,000 and \$99,000, and the projected benefit obligation would have been approximately \$113,000 and \$109,000 in 1996 and 1995 respectively.
 - ii) The company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25") in accounting for its employee stock options under accounting principles generally accepted in the United States. Under APB 25, because the exercise price of the company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. This is in conformity with Canadian GAAP. However, FAS 123 requires the disclosure of pro forma information regarding net income and earnings per share using option valuation models that calculate the fair value of employee stock options granted.

The fair value for the stock options was estimated at the date of grant using a Black-Scholes option pricing model using the following weighted-average assumptions for 1996 and 1995, respectively: Risk-free interest rates of 6.4% and 7.2%; dividend yields of 1.6% and 1.7%; volatility factors of the expected market price of the company's common stock of .19 and .18; and a weighted-average expected life of the options of 4 years.

The Black-Scholes option valuation model was developed for use in estimating fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized over the options' vesting period. The company's pro forma information follows:

	1996	1995
Pro forma net income	<u>\$ 82,407</u>	<u>\$ 90,803</u>
Pro forma earnings per common share:		
Primary and fully diluted	<u>\$ 3.02</u>	<u>\$ 3.35</u>

19. Contingencies and Environmental Expenditures

The company's sole line of business is steelmaking and fabricating. The major raw material used in the steelmaking process is reclaimed iron and steel scrap. This recycling has made a significant contribution to protecting the environment. As an ongoing commitment to the environment, the company continues to monitor emissions, perform site clean-up, and invest in new equipment and processes. Nevertheless, rapidly changing environmental legislation and regulatory practices are likely to require future expenditures to modify operations, install pollution control equipment, dispose of waste products, and perform site clean-up and site management. The magnitude of future expenditures cannot be determined at this time. However, management is of the opinion that under existing legislation and regulatory practices, expenditures required for environmental compliance will not have a material adverse effect on the company's financial position. Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against earnings as incurred or capitalized and amortized depending on the future economic benefits.

